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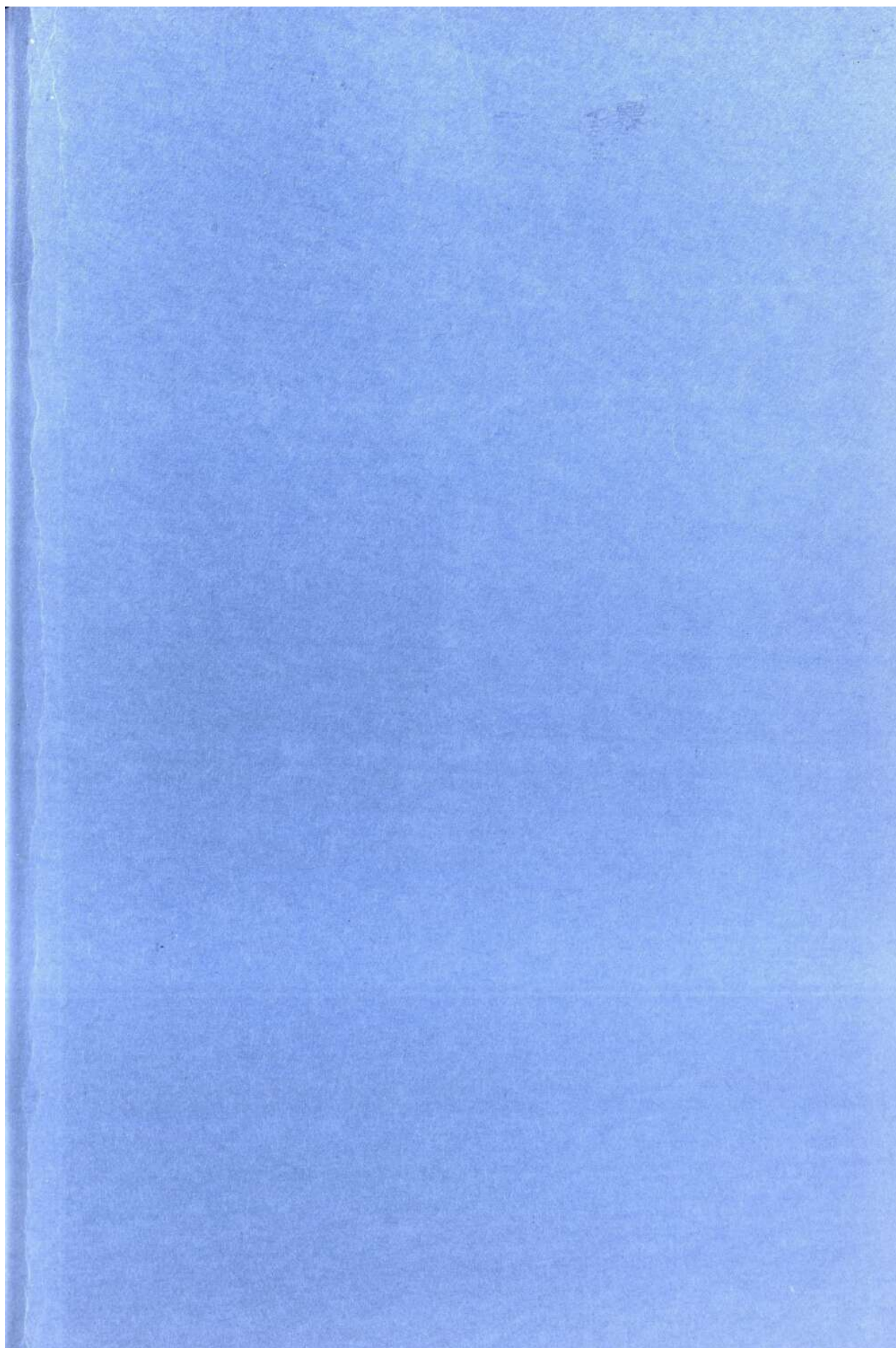
**The Parliament of the
Commonwealth of Australia**

**SENATE STANDING COMMITTEE
ON FOREIGN AFFAIRS AND
DEFENCE**

**The New International Economic Order
Implications for Australia**

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THE NEW INTERNATIONAL ECONOMIC ORDER IMPLICATIONS FOR AUSTRALIA

Report from the Senate Standing
Committee on Foreign Affairs and Defence

PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

The New International Economic Order

Implications for Australia

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Committee on Foreign Affairs and Defence

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Abbreviations	
ASEAN	— Association of South-East Asian Nations
CHOGM	— Commonwealth Heads of Government Meeting
CIEC	— Conference on International Economic Co-operation
CPE	— Centrally Planned Economy
DAC	— Development Assistance Committee
EEC	— European Economic Community
ESCAP	— Economic and Social Commission for Asia and the Pacific
FAC	— Food Aid Convention
GATT	— General Agreement on Tariffs and Trade
GDP	— Gross Domestic Product
GNP	— Gross National Product
GSP	— Generalised System of Preferences
IBRD	— International Bank for Reconstruction and Development
IMF	— International Monetary Fund
IPC	— Integrated Program for Commodities
LLDCs	— Least Developed Countries
MSA	— Most Seriously Affected
MTN	— Multilateral Trade Negotiations
NIEO	— New International Economic Order
ODA	— Official Development Assistance
OECD	— Organisation for Economic Co-operation and Development
OPEC	— Organisation of Petroleum Exporting Countries
SDRs	— Special Drawing Rights
TNCs	— Transnational Corporations
UNCTAD	— United Nations Conference on Trade and Development
UNGA	— United Nations General Assembly

Preface

The Committee's terms of reference

The Senate on 27 April 1976 referred to this Committee for inquiry and report the reference: 'The implications for Australia's foreign policy and national security of proposals for a new international economic order'.

The Committee called for submissions in March 1978 by placing advertisements in major newspapers and journals, writing to individuals, academic institutions, business firms, organisations and Commonwealth government departments. Hearings on the reference commenced on 14 March 1979 and concluded on 22 June 1979. The Committee conducted hearings in Canberra, Sydney and Melbourne with public hearings on nine days and went into in camera session on one occasion.

Introduction

The proposals for a new international economic order (NIEO) were formalised in two resolutions of the United Nations General Assembly (UNGA) in May 1974. Encouraged by the actions of the Organisation of Petroleum Exporting Countries (OPEC) in relation to oil prices the previous year, the developing countries presented a cohesive and vocal stand for a revision of the world's economic system, which they feel in its present form works to their disadvantage. The developed countries, including Australia, expressed reservations and showed a degree of reluctance to many of the proposals.

When the Committee received the reference for this report in April 1976 the resolutions for a new international economic order were less than two years old. The Committee considered the timing for an inquiry into this reference and concluded that its deliberations would be better served by waiting to see what further reactions and attitudes to the proposals resulted from meetings of international forums in the next few years. Meetings such as the 7th Special Session of the United Nations General Assembly in September 1975, United Nations Conference on Trade and Development (UNCTAD) IV in May 1976 and other meetings have not only demonstrated the continuing solidarity of developing countries towards the NIEO proposals but have resulted in more constructive and comprehensive resolutions towards a new economic order. Therefore, in 1978 the Committee decided that it was timely to examine the NIEO proposals and how they have developed, in particular, as the wording of this reference directs, what the implications are for Australia's foreign policy and national security.

To initiate the inquiry the Committee advertised the reference extensively in the national and academic press, approached Commonwealth government departments, industry, organisations, universities, groups, and individuals for submissions which would contribute to its deliberations. Even though a lengthy lead time was given for submissions and late submissions were welcome, overall the response to the invitation was disappointing. Only thirty-four submissions were received by the Committee which indicate an unfortunate lack of interest in this important

issue and probably a considerable gap in the understanding of the topic throughout the community generally, particularly in centres of learning which by now should be familiar with and examining the significance of the proposals.

This report examines the progress of the NIEO proposals with emphasis on their implications for Australia and while it is not certain whether the proposals will be implemented in their existing form, or in part, or in the case of some, at all, it is apparent that they have given an impetus to changes that will affect the existing international economic order. Successive Australian governments have participated in efforts to establish a more equitable international order by seeking to alleviate some of the basic problems which contribute to international tension. The principal and most visible contribution has been development assistance and while this remains an important element in the NIEO proposals the overall involvement required from Australia will be more extensive. At a time of growing interdependence between nations, increasing complexity in international affairs and the implications that foreign policy issues have for domestic issues and vice versa, Australia cannot remain outside, or even be hesitant about involvement in, the international arena because an ever-increasing number of its national goals depend on the co-operation of other countries. In fact Australia has now become an active participant in the NIEO discussions but the Committee considers it important that the Government's participation should not occur in isolation from the views and awareness of the Australian public. This inquiry made it obvious that there is a limited knowledge of NIEO issues throughout the community. The public perception of what the NIEO means generally and to Australians specifically should be promoted not only by the Government and its instrumentalities but by the media, unions, organisations, academic bodies and informed individuals.

The developing countries have maintained a cohesive stand on the NIEO and Australia must continue to respond in a positive manner which is in keeping with our national interest. Australians may be called upon to make some sacrifices but there are also benefits to be gained from other aspects of the NIEO. The Committee considers it important that the issues of the NIEO be given a broad coverage within the community and it is hopeful that this report will be of assistance in that task.

Summary of conclusions and recommendations

Australia has an interest in the New International Economic Order that is different in a number of ways to that of other countries in the developed world. While it is important not to overlook the many similarities that it has with the developed countries and the natural inevitability of its linkage with that group of countries, it is similarly important not to overlook the differences that exist because if Australia underestimates them so may the other developed countries. For various reasons related to its interests and economic structure, Australia cannot be identified fully with the interests of either the developed or the developing countries. This has some benefits in that it facilitates a more positive and constructive role in the discussions between the two groups. It has historically left Australia vulnerable, particularly given a disinclination by the North to accept that Australia's interests may at times differ from those of other developed countries.

For Australia, as for other developed countries, the decades ahead offer formidable domestic problems arising from inflationary pressures, uncertainties about future liquid fuels supplies, a high level of unemployment, and the difficulties inherent in balancing competing demands in the community. In these circumstances, there will be an understandable temptation to turn inwards, to adopt short-term stop gap and defensive measures and to put aside the need to come to grips with longer term issues and those affecting this nation's international position. Such a development would be fraught with risks.

There is a growing interdependence between nations. More and more of Australia's national goals depend on the co-operation of other countries. The developing countries as a whole are becoming increasingly important in this context as Australia's goals expand and as the developing countries become more active participants in the global economy.

So far as Australia's national security is concerned, Australia should not regard itself as likely to be under any significant form of strategic duress in examining and responding to the pressures of the developing countries in the NIEO context. Nevertheless, the NIEO has to be seen in the broader historical perspective of the relationship between the rich and the poor countries of the world and an approach based on confrontation and selfishness could, in the Committee's view, pose major problems of world political instability. Moreover, in more localised terms, countries or groups of countries which see themselves frustrated in their attempts to achieve improvements in access to the benefits of the established international economic system may not necessarily follow a rational course. Economic failure or instability could lead to a search for international distractions. In addition, the Committee believes that Australia's national security is enhanced by the development of good political and economic relationships with the countries in its region in particular.

In more specific terms, the Committee believes that no country which acknowledges that it is a beneficiary of the 'western' trade and payments system can be indifferent to the claims of other countries of this system which have become

convinced they are not receiving an equitable share of those benefits. If such disaffected countries withdraw from that system, the benefits received by Australia and other developed countries would be correspondingly diminished.

It is essential that in Australia's thinking and discussions there be an injection of realism, purpose and a strategy in response to the NIEO which recognises legitimate demands for change and brings them about in a coherent and effective way by national and international action.

In particular the Committee believes that, while many of the proposals of the NIEO are unacceptable in their present form, a continuing concentration on the specific proposals that Australia does not like may not only distract attention from those that might be acceptable but, more importantly, it will distract attention from the underlying pressures and realities of which the NIEO is only a manifestation. In the Committee's view, there are grounds for some part at least of the developing countries' discontent with the existing system and it is less in the interest of Australia than of some other developed countries to deny this and to seek to protect the existing system from change helpful to the developing countries. Australia's long-term national interests—and, the Committee believes, those of many of the developed countries—require a more constructive approach by the North to the developing countries than has been evident in the past. The Committee accepts the view given in evidence that the increasingly inward-looking international economic policies of the developed world hold within them the seeds of increasing fragmentation and conflict within the developed countries and between the developed and developing world. It also sees this as posing a serious threat to future international economic and political stability.

The Committee also believes, moreover, that an approach to the NIEO that simply looks critically at proposals put forward by the South and finds them wanting rather than making positive and constructive alternative suggestions has dangers for the North and for Australia. Australia has an interest in achieving a full and constructive participation by the developed countries as a whole in the negotiations.

The Committee's inquiry leads it, therefore, to support the more positive approach by successive Australian governments in recent years towards the developing countries and reflected most recently in the context of the Common Fund, in CHOGM and at UNCTAD V. It believes that such a positive approach should be extended wherever possible to other areas of Australia's relationships with developing countries at the global, regional and bilateral levels.

In the Committee's view, Australia should be active in looking at ways in which, consistent with its national interest, it can contribute to the objectives of the developing countries in seeking a more effective and more just international economic system. At the same time there is a need to accept that Australia, as a country with a small population, must look to have its influence as much within the councils of the developed countries as on the broader international stage. It needs to be mindful of its limited role and restrict itself to taking an assertive line only where it sees specific benefit to its broader national interest.

As the Committee has already implied, the concept of the national interest in this context is difficult to define. It is easy to argue validly that Australia should support those measures that are in the common interest of both developed and developing countries. The Committee is of the opinion that it is essential to go further than this, however, because much of the debate stems not from disagreement with this proposition but about whether or not particular proposals for change or for the maintenance of the *status quo* are mutually beneficial or not.

An acceptance in principle of common interests does exist between developed and developing countries in expanding markets for manufactured exports from developing countries. As in the analogous case of agricultural protection before it, however, such agreements in principle do not always lead to improvements in practice. Common interests elsewhere, even in principle, are more difficult to establish—as the debates on the Common Fund or on stabilisation arrangements for commodities have illustrated.

The dialogue between the North and the South is greatly influenced by different perceptions of the facts, of the way in which the economic system works, of who benefits, of how it can or should be improved, and of the likely success of suggested changes or improvements. Resolving these differences inevitably involves decisions based on judgments and the question of who makes these judgments thereby becomes important. Indeed, it is part of the claim of the developing countries that they do not have a reasonable say in those judgments and decisions.

The natural tendency in such circumstances for those benefiting or at least not obviously disadvantaged is to take the cautious line and to press for maintenance of the *status quo*. While arguing that this is to the benefit of all concerned, the tendency is also to look at each issue in isolation, to defer decisions until unavoidable and to seek to limit any change as much as possible. For reasons given earlier, this is unlikely to be successful in the long term and it fails to make the most of the opportunities available to benefit Australia's long-term national interest. There will, of course, be occasions when Australia's interests require that it should actively seek to maintain the *status quo* and to resist changes seen neither to be in Australia's nor the international community's long-term interest. The Committee believes that Australia's ability to do so, however, will be enhanced by a constructive policy that does not merely look for positive change where feasible and sensible, though that is important in itself, but accepts that the crucial issue is often that Australia's long-term interests may differ from its short-term interests.

The Committee has already observed that few international issues can be seen in isolation from their significance in the North-South debate. It has not attempted to consider all of the potentially significant areas but only a number of those that, at this stage, seem to impinge directly on Australia's interests.

International trade

It is because maintenance of the existing international economic system is important that the need exists to ensure that it is worthwhile for Third World countries to support such a system rather than to seek to replace it. The Committee believes that Australia should continue to argue for a more equitable sharing of the benefits achieved under the existing system and against clear breaches of the principles of that system such as the increases occurring in industrial protection world-wide.

The Committee concludes, however, that it is not enough for Australia, any more than for the other developed countries, simply to continue to affirm its belief in the virtues of the 'western' liberal international trading system. Australia has to indicate that in practice it is prepared to live by the precepts of that system and where they cause adjustment problems—as they do in Australia—be prepared to face them as it must press others to face them and to deal with them constructively and humanely.

The Committee recommends that Australia indicate in practical terms that it is prepared to follow the precepts of the established system and accept the adjustments to the domestic economy that this may involve. The case for moving as

fast as feasible within Australia in the restructuring of industry—with appropriate safeguards—has been well put in recent reports and ministerial statements. In the Committee's view, Australia's progress in this direction will not only further its own interests and be seen as a constructive step by its neighbours, but it will add weight to Australia's voice in urging more liberal responses to developing country exports by other developed countries.

Commodity trade

The Committee concludes that because of its experience and national interests, Australia has a strong case for constructive involvement in attempts to improve the conditions of international trade in commodities. Moreover, it believes that Australia's trading position would be improved as a result of increased stability in world commodity markets which the negotiation of appropriate international commodity arrangements could achieve.

The Committee recommends, therefore, that Australia continue to participate fully and constructively in international discussions and negotiations, within the NIEO context or elsewhere, designed to achieve improved conditions for international trade in primary commodities.

Common Fund

The Committee regards Australia's constructive approach on the issue of the Common Fund as having important lessons for other issues arising in the NIEO and in Australia's general relations with the developing countries. A constructive and helpful approach on such matters is likely to result in Australia being given a more receptive hearing where its interests may need protecting. Moreover, political judgments, as on the Common Fund, that look to Australia's long-term interest rather than to an overly fine calculation of short-term gains are crucial in the fundamentally important area of Australia's relations with the Third World.

The Committee recommends, therefore, that Australia continue its positive approach to achieving an effective international agreement on the Common Fund and that it continue to take constructive initiatives in pursuing those objectives.

Transnational corporations

The Committee concludes that Australia's greater sensitivity to the concerns of the developing countries over TNCs arising from its experience as a host of TNCs should enable it to take a more constructive and positive role in the development of sensible codes of conduct for TNCs that take adequately into account the concerns and interests of both home and host countries.

The Committee recommends that a process of consultation be undertaken with interested Australian companies to determine to what extent they can accept the codes of conduct being formulated with respect to the operations of transnational corporations.

International monetary issues

The Committee considers that the financial field, being economically more powerful, gives the developed countries an advantage in terms of a more extensive range of options, more flexibility and more resilience. Rather than support the Third World in its efforts to change the system in consequence, Australia's approach should be to look for ways within the international financial system to offset this

disadvantage in a rational way and to seek the acceptance of this approach by the developing countries.

The Committee recommends that Australia should look constructively for ways of adapting the operations of the existing international financial institutions to minimise the disadvantages that such countries experience under the existing system as an alternative to making basic changes to those institutions.

International development assistance

The Committee acknowledges that although development assistance cannot be a substitute for enlarged trade opportunities it does have an important supplementary role to play in the development process. Moreover, Australia's past record in this field, both in volume and more particularly in quality, is a good one. Nevertheless, while recognising the arguments for limiting Australia's existing development assistance program, the Committee hopes that its expansion will be a high priority in the future.

The Committee recommends that:

- (i) given the importance of development assistance to the developing countries, and while recognising that the quality of it is often at least as important as its quantity, Australia should try to increase its overall development assistance commitment in real terms as soon as possible;
- (ii) Australia should continue to give its development assistance predominantly in grant form and should encourage other donor countries to do likewise;
- (iii) Australia should continue to provide assistance in the fullest consultation with the recipient countries to ensure that it fits effectively into their development programs;
- (iv) the concept of development assistance be seen increasingly in the context of the broader process of economic development affecting a range of international issues, including for example stabilisation stocks, the Common Fund, market development, food security and agricultural development, which fall within the ambit of the NIEO.

Debt relief

The Committee endorses Australia's support for the case by case approach to debt relief as being in the interests of both the developing countries and in its national interest. Nevertheless, it also concludes that, as a relatively small creditor, Australia has only a limited role to play in the international discussions of debt relief issues.

The least developed countries

The Committee regards the problems of the least developed countries, especially those in the region, as having particular significance. It has in mind particularly that, although some countries in the region are achieving relatively high rates of development, other countries are not able to do so. Even without the problems caused by the conflicts in Indo-China, there are major problem areas in the region as well as further afield for which expanded trade opportunities—and indeed much of the NIEO—offer little opportunity. For these countries of the Fourth World development assistance has especial significance and will need to be given greater attention in the future. It is important, however, that such assistance, whether in

financial terms or in the transfer of technology, be provided only after careful consideration, with the recipient country, of its relevance to that country's development circumstances.

The Committee recommends that in the context of the NIEO the problems of development assistance to the least developed of the developing countries be given special attention.

Food aid and food security

The Committee concludes that Australia has a good record in the provision of food aid but it recognises that difficulties arise in the relationship between food aid and Australia's commercial trade in food. Because of the vulnerability of much of the Third World to food shortages there is a need for Australia to play a constructive role in the development of positive international action to deal with food security issues. The implications of a major food crisis could be very serious for international political relationships both globally and regionally. The Committee recommends that Australia should continue to press strongly for international action to help provide an effective system of global food stocks to help offset the intermittent problems of food scarcity as well as for continuing efforts to enlarge food production capacity in the developing countries themselves.

Technology transfer

Since, in the Committee's view, the transfer of technology is a critical element in the development process and consequently in the NIEO, it recommends that Australia seek to assist constructively in achieving international action to facilitate the transfer of technology to developing countries.

Shipping

The Committee recommends that the Australian policy towards the UNCTAD shipping code be reviewed constructively from time to time to ensure that the broader Australian interest in relationships with the countries of the Third World is being fully met.

Australia's international representation

The Committee concludes that in general Australia's position has been effectively stated internationally. The Committee believes it is vital, however, for Australia to be adequately represented in international meetings and some difficulties have been experienced in providing representation at the wide range of meetings affecting Australia's interests.

The Committee recommends that Australia should be effectively represented at all meetings likely to touch Australia's direct interests. It also recommends that Australia should not seek to play a leading role in those discussions except where its interests require it to play such a role. Where this is not the case, it should resist the temptation to express strong views.

Domestic understanding of the NIEO

The Committee is concerned that in the absence of a deeper and more extensive public awareness of the issues arising out of the NIEO, the scope for an effective policy response by the Australian Government will be limited. The Committee recommends that an increased effort should be made not only by the Government

but by other responsible bodies to achieve greater understanding within the Australian community of the issues of the NIEO and their relationship to Australia's long-term economic and strategic security.

Co-ordination of Australia's policies

The Committee believes that many early problems in the co-ordination of Australia's policies towards the NIEO have been overcome with an improved awareness of the issues in the various departments involved. Some problems appear to remain, however, and action is necessary to ensure that policies on individual issues having a direct or indirect impact on Australia's relations with the Third World are formulated with a full understanding of their wider and longer term implications. Ultimately, of course, the consistency of Australia's policies must depend upon decisions by the collectivity of ministers and it is crucial therefore that ministers should be adequately briefed in making their decisions.

The Committee recommends that a more systematic means be established at departmental and ministerial level to ensure that decisions affecting relationships with developing countries in an NIEO context be made with a full knowledge of the broader national interests.

1. Institutional and historical background

(a) Introduction

The demand for the new international economic order has various meanings and implications. As a broad approximation the NIEO tends to be seen in one of two ways. It is seen primarily as a set of proposals put forward, or demands made, by the developing countries for fundamental changes in the existing international economic system. These are commonly regarded as coalescing around a sharpened perception, by the developing countries, of their increased economic power through their resources—arising principally from the actions of the oil exporting countries in 1973 and 1974 in raising oil prices—and to have been sought through the aggressive use of bargaining power that the developing countries assume they have. This would be commonly seen also as reflecting a philosophical commitment by the developing countries to the idea of government intervention and planning in the international economic system, as distinct from that of the free enterprise or free market system.

Alternatively, the proposals coming up under the heading of the NIEO can be seen as the latest manifestation of the continuing process of debate and bargaining between those countries with high incomes and those with low incomes at the international level. The NIEO, in this regard, puts into more concrete form the increasingly concerted approach of the developing countries to their concerns with the effectiveness of the international economic system, seen as both the major determinant of the pace of economic development and of the division of the world's resources. On this interpretation, the developed countries are judged to be defending the *status quo* at least in part because they are reasonably satisfied with the benefits they receive from the present system, while the developing countries are seeking changes to overcome their dissatisfactions—justified or not.

There are many variations on these two broad themes which will, to some extent, become evident later in this report. The Committee also accepts that there is substance in both views, but it regards it as important to see the emergence of the NIEO in a broad historical perspective. Moreover, a crucial characteristic of the debate, of which this is just one example, though a major one, is the critical importance of the perceptions of those participating in the debate. Not only is the issue of how to interpret the NIEO itself seen as different by those involved, but there are major differences of understanding and interpretation regarding many of the elements of the existing system that compound the difficulties of any discussion about the old, as well as proposals for a new, international economic order.

(b) Development of the developing country position

Obviously, however, the demand for a new international economic order in whatever form arises out of dissatisfaction with the old economic order. In its present form, the old economic order is based on the historically developed market-oriented economic system of the Western world, operating within certain international institutional arrangements. While the underlying economic structure has

a much longer lineage, for the most part these institutional arrangements were set up immediately after the Second World War to govern international economic relationships. Important among such institutions were the specifically economic institutions, such as the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (IBRD), and the General Agreement on Tariffs and Trade (GATT). The UN and related agencies had a more general role but were for the most part reinforcing the broad principles being followed in the specialised economic institutions.

These institutions reflected a continuation of attempts at a global approach to the problems of economic relationships between countries. Such an approach was seen as providing the most effective means of achieving world economic development and in reducing conflicts between nations. Looked at historically, the global or internationalist approach to economic issues is a relatively recent phenomenon. Although some of the elements developed in the 19th century, the main impetus came in the period between the First and the Second World Wars. In part impelled by the same motivations as those that led to the League of Nations, it was also true that a wide network of trading relations between large numbers of independent nations is basically a 20th century phenomenon. The attempts at internationalism in the 1920s broke down in the 1930s under the world economic depression and the growth of economic nationalism. This was attempted again post Second World War with a large burst of idealism and a fear of the consequences of a return to bilateralism and economic nationalism.

The concerns about trade between the Third World and the countries of North America and Europe are also mainly a late 19th and 20th century phenomenon, mainly because the major industrialised countries were largely self-sufficient in the principal raw materials until the end of the 19th century, by which time oil, rubber, copper and aluminium were starting to become important.

Development of agriculture, mainly tropical, in the developing countries proceeded relatively rapidly and while attempts to offset the market problems through early attempts at commodity agreements, mainly producer-based, were not generally very successful, the major problems were not experienced until the depression years of the 1930s.

The post Second World War years saw attempts to deal with these problems internationally and the developing country issues were important at that time, mainly in the field of commodities, though more general economic development needs were to be met through the IBRD. The grouping of countries at that time was different with a number of countries, including Australia, allied as primary producing exporters and as small countries against the interests of the large industrialised countries.

The attempts by the developing countries as such to gain systematic attention to their problems in the early post-war years were handicapped by a number of factors, including the emphasis on post-war recovery efforts in Europe and the emergence, after the Korean War boom of 1949-51, of surpluses in a wide range of primary commodities which reduced their political or economic bargaining strength more than their importance in the Cold War raised it.

In the early post-war years, developing countries had expected that economic development would proceed rapidly once they had gained political independence and thereby control over the direction of their economies, through the growth of international trade and capital flows boosted by the injection of funds through

development assistance programs. By the early 1960s, however, there was a growing sense of dissatisfaction among developing countries. For many of them, two decades of political independence had not been accompanied by the hoped for economic progress and economic independence. They saw the growing disparities in wealth between the industrialised countries and the developing world as an indication that fundamental changes in the economic system were necessary, arising from a view that the prevailing structure of international economic relations was inherently biased against developing countries. In 1964, with the establishment of UNCTAD and subsequently Part IV of the GATT on Trade and Development, the machinery was in place to focus on the developing countries and their problems.

Despite some concessions made by the industrialised countries to the developing countries, however, notably the Generalised System of Preferences whereby developing countries were granted preferential access for their manufactured exports to developed country markets on a non-reciprocal basis, and some reductions in duties on tropical products, these were generally seen as marginal to the problems of economic development in developing countries.

Various attempts were made to explain the position of the developing countries and their relative lack of success in terms of economic progress. The more radical of the developing countries tended to lay the blame for their backwardness at the door of the 'western' developed world, claiming that there was a link between the continued rapid growth in the industrialised countries and the lack of substantial economic progress in the Third World. They saw the existing economic order established in the immediate post-war years as having arisen out of agreements by the metropolitan powers who comprised the former colonial order as one which took little account of the needs of the developing countries. While not all of the countries known as the Group of 77¹ adhered to the radical philosophy which attributed its relative poverty to such exploitation, there was an increasing acceptance of the need for major reform.

Developing countries also began to realise that the development assistance provided by the industrialised countries not only did not reach their deep-seated structural problems, inherited if not from a colonial history at least from their late arrival on the stage of world economic development, but at times tended to exacerbate their existing problems. This was commonly the case with food aid which provided disincentives to domestic food production in these countries. These effects were reinforced by world trading arrangements which envisaged developing countries for the most part as the suppliers of primary commodities for the developed countries.

The levels of development assistance transfers from the developed countries had been falling in recent years due to what has been termed an 'aid weariness' on the part of the developed countries. This seems in part to have been due to doubts about the effectiveness of past assistance but also due in part to the reduced immediacy of the problems of underdevelopment as the decline in the Cold War proceeded.

The results of these various factors gave rise to what the Department of Foreign Affairs submission refers to as a 'belief among a substantial numerical majority of the nations [including developing nations] which participate in the

¹ The name given to the developing countries at UNCTAD; it has been maintained subsequently, although the numbers have since grown to 119.

Western system of trade and payments that they are not receiving an equitable share of the benefits which flow from the system as it currently operates'.²

While UNCTAD had been the main focus of international attention to developing country problems, specific impetus to attempts to get more concentrated attention arose from the Algiers meeting of non-aligned countries in 1973. This laid the foundations for further developing country demands for reform and to the pressures which eventuated in the Sixth and Seventh Special Sessions of the United Nations Special Assembly in May 1974 and September 1975 respectively to discuss issues of raw materials and development.

(c) Development of the NIEO

It was the Sixth Special Session in May 1974 which gave rise to the two resolutions which constitute the formal basis of the NIEO—the Declaration, and Program of Action, on the Establishment of a New International Economic Order (see Appendix 1). These resolutions were adopted without a vote but a number of developed countries, including Australia, entered reservations on a number of the specific principles. Although not legally binding on the member countries of the United Nations, these resolutions both strengthened the resolve of the developing countries and provided a persuasive mechanism for seeking a constructive response from the developed countries.

At the regular UNGA Session in 1974, some of the basic principles of the NIEO were incorporated into a Charter of Economic Rights and Duties of States. This Charter has been under negotiation in UNCTAD since 1972, and was to some extent bypassed by the United Nations Special Sessions. It was also not passed unanimously—a number of developed countries voting against it.

The formal mechanisms of what, since the Sixth Special Session, has been known as the North–South debate were important but so was the nature of the debate. Initially, it had been more of a North–South conflict, confrontation being an important ingredient of the early discussions. After earlier unsuccessful attempts to achieve a dialogue rather than maintain a confrontation with the tensions which it generated offering grave dangers, a basis for a dialogue was established with the establishment of the Conference on International Economic Co-operation (CIEC) in Paris in 1975, to negotiate on the particular elements of the NIEO. This attitude was also carried over into the Seventh Special Session of the United Nations later that year. A further element of special interest to Australia was the flow-on of these developments into the commodity field. The example of OPEC had led to the establishment of a number of commodity producer groups, such as those for bauxite, copper and rubber. In UNCTAD an Integrated Program for Commodities (IPC) was developed and became a major developing country initiative at UNCTAD IV in Nairobi in 1976, as well as being a major issue in the CIEC which held its concluding meeting in May–June 1977.

Given the great strength of the initial negative reactions by the North, including Australia, to the NIEO proposals, it has been a major achievement on the part of the developing countries to have the issue of adjustments in the international economic system brought to the negotiating table as one of the major international issues. A concomitant of that achievement is a growing acceptance that the series of proposals within the NIEO is based on propositions and complaints, at least some of which have a degree of validity.

² See transcript of evidence, *Official Hansard Report*, p. 1225.

General arguments about whether inequities in the existing economic order can be ascribed to any flaws in the international economic system which are capable of being remedied are impossible to resolve. It is perhaps less difficult, however, to consider this aspect in some specific fields such as that of trade. For example, the fact of increased protective trade measures in developed countries, not just on commodities but also against manufactured exports from newly industrialising countries, is hardly disputed; yet such increased protection is contrary to the basic principles which the developed countries have themselves used to buttress their case of the maintenance of the existing economic order. It is not difficult to accept that, in that sense, there is an inequity.

In looking at the content of the NIEO proposals, an important point made by the Treasury with which the Committee broadly agrees is that care is needed in thinking about the NIEO as a package. While it has a number of common elements, and those common elements are important, it also is a whole series of proposals all representing a particular phenomenon.

The Committee discusses some of the elements of the NIEO in greater detail later in this report. Perhaps it should be emphasised here, however, that Australia's interest in the presentation of the NIEO is not only in its concrete substance and not only in Australia's judgment of its validity. It is also important simply because of what it signifies to the developing countries and as it in consequence affects Australia's relations with them.

There are real difficulties, as the Treasury submission emphasised, in determining precisely what and which are developing countries, given the diversity of countries and their economic and political circumstances. Nevertheless, the countries that constitute the Group of 77 are an important and, considered to be, a cohesive group. They include major sources of energy and resource supplies for the global community, and their allegiances are strategically important in an East-West context. Their co-operation is also important in other negotiations and activities important to Australia such as the negotiation of the Law of the Sea codes, maritime communication regulations, nuclear proliferation and nuclear safeguard arrangements, and in conservation agreements.

They are of particular importance to Australia. Because of its geography and its general economic, political and strategic circumstances, it can be argued that Australia has more than most countries to gain from a rational approach to the issues raised by the NIEO, and also perhaps more to lose than most if the debate becomes sterile and unconstructive. This point the Committee develops more fully later in this report.

2. Broad characteristics of the NIEO

(a) General objectives

The NIEO proposals have three general objectives. The first is concerned with the achievement by developing countries of permanent sovereignty over their natural resources. The second is the objective of improved terms of trade for their primary product exports; and the third, an increased transfer of real resources from developed to developing countries.

Initially, at least, the nationalisation and expropriation provision of the NIEO Declaration³ was in many respects the most controversial issue, particularly to capital exporting countries. Its importance, which was compounded by the continued disputes between the United States and some Latin American countries over appropriate compensation for past nationalisations, has diminished for two sets of reasons. First, the transfer of control over resources from the capital exported to the country of location has increasingly been accepted as inevitable; new investment arrangements have been devised to meet these new circumstances. Second, there has been an increased recognition by developing countries, which have resources of interest to investors, that if they are in need of capital and the associated technology, this is unlikely to be achieved in the absence of some assurance against arbitrary expropriation and many developing countries have signed investment guarantee agreements with capital exporters. Moreover, it is acknowledged that sufficient control can, in any case, be achieved by other means. Some of these other control mechanisms may still inhibit investment and, in evidence to the Committee, this was illustrated in the case of the Philippines.⁴ This also demonstrates the fact that although a large net importer of capital, Australia is also an exporter of capital and consequently could be adversely affected by arbitrary treatment of investments made in good faith without adequate compensation.

The tenor of the earlier UN position, stemming from the 1962 Resolution⁵ until the Charter of Rights and Duties of States, was that all states had a right to expropriate and nationalise for a public purpose so long as they did not discriminate against particular foreigners. This was also subject to providing compensation that was prompt and effective.

In part the issue is one of acceptance of the need to offer appropriate compensation; it also concerns how this is determined—nationally or internationally. Opposition to the Charter reference is based mainly on the removal of the compensation process from international law. Some of these issues relate more generally to that of the code for multinational enterprises which the report examines later.

The second broad objective of the developing countries in the NIEO was the improvement of the terms of trade for primary commodities. There has been a

³ Clause IV (1) of the Declaration.

⁴ See transcript of evidence, *Official Hansard Report*, p. 479.

⁵ UN General Assembly Resolution 1803 (XVII), 14 December 1962 on Permanent Sovereignty over Natural Resources.

long standing belief on the part of the developing countries that there has been a permanent and secular decline in the terms of trade for exports of primary commodities. It is also widely thought that this decline will continue due to the uneven distribution of bargaining strength between developed and developing countries.

This view was elaborated and articulated particularly by Raoul Prebisch, subsequently the first Secretary-General of UNCTAD. There has since been a major and continuing debate on the issue which derives its importance from the dependence of a large number of developing countries on the exports of primary commodities.

It is, of course, true that the major sources of the world's supply of most primary commodities are developed countries themselves rather than developing countries. It is also true that a number of important developing countries, such as India, are not significantly dependent upon primary commodity exports. Nevertheless, many of the developing countries are dependent upon a limited number of commodities. Some two-thirds of the non-oil exports of developing countries are primary commodities and, although this proportion is falling with the increase in manufactured exports from developing countries, it remains of major importance.

Consequently, the subject of commodities is central to the NIEO. The specific form of the concerns and aspirations of the developing countries is elaborated in the Resolution 93 (IV) on the Integrated Program for Commodities adopted at the 4th Session of UNCTAD in Nairobi in 1976. Its adoption was subject to reservations entered by a number of developed countries, including Australia. Resolution 93 (IV) represents, in effect, a summation of the range of proposals affecting international commodity trade which the developing countries have been advancing since UNCTAD was established in 1964 and indeed for long before that.

Major elements in the background thinking and documentation of the developing countries were the concerns about the high degree of commodity market instability and the expected decline in the terms of trade. Arguments for stabilising prices tended to have two elements, stabilising of prices in money terms, and a stabilising of the real value of those prices by some form of indexation. The first would be achieved through commodity agreements, based primarily on buffer stock arrangements. The second was to come about either through commodity arrangements involving export taxes or quotas to restrain prices or through the use of producer groups along the lines of the example set by OPEC for oil. The argument for linking prices of exports to the prices of imports is of long standing—it was put strongly in the Bretton Woods and Havana Chapter negotiations—but the fears that the developing countries would use to the full their bargaining power, through joint and united action to secure these aims, has been a major concern of many of the countries of the North.

It is frequently not realised that while concerns with price and market instability, and with improved terms of trade in general, are important components of the Integrated Program, the idea of stabilisation in real terms and the idea of indexation are not included in the IPC. The IPC does seek a general improvement in the terms of trade of commodities and it does put emphasis on the stabilisation of commodity markets. It sees these objectives as being achieved through the use of international commodity stocking arrangements, co-ordinated

with national stockpiles, internationally agreed supply management measures, more effective market information and consultation procedures, better compensatory financing procedures, improved market access for primary and processed products through reduced trade barriers, enlarged preference arrangements through measures to assist with processing transport and distribution, and increased research and development.

The third objective of the NIEO is to achieve an increased transfer of resources to the developing countries. The concerns in this context arose partly from the belief that the terms of trade of developing countries are so weighted against them in the present economic system that the exchange earned from developing countries exports cannot provide the capital necessary to finance their development plans. The principal alternative in these circumstances is development assistance. In seeking substantially increased resource transfers, principally through increased official development assistance, developing countries have also sought alleviation of their external debt problem. They have also argued for increased participation in the decision-making process of the major international financial institutions, to take account of their special situation and, in particular, for special arrangements to deal with the problems of the least developed, land-locked and island developing countries.

The matter of resource transfer also arises with the issue of the transfer of technology. The developing countries argue that they have not benefited adequately from available technology and scientific knowledge and have put formal proposals to promote the transfer of technology on more favourable terms. A code of conduct has been urged, and is currently under negotiation, on this aspect.

The NIEO contains a number of other important issues. As already noted, a code of conduct for multinational corporations is proposed. There are also further provisions dealing with trade in manufactured products, international monetary issues, food and agriculture, industrialisation and co-operation among developing countries themselves. Related aspects also concern special measures for the countries most seriously affected (MSA countries) by the oil price rises and Seabed and Marine Resources. The NIEO proposals consist, therefore, of a substantial shopping list of items. There are clearly some extreme elements in the shopping list—and much of the public debate has focused on some of these elements. The Committee accepts the point made in evidence by the Department of Foreign Affairs that these elements should not be regarded as too great a distraction.

At the same time, although the NIEO implies major changes to the existing international economic structure, it is important to distinguish between those proposals which, if implemented, imply a significant structural reform to the international economic system as it is currently known, such as proposals affecting trade and the international monetary system, and proposals for change designed to operate through the existing economic system to encourage faster rates of growth in developing countries. Examples of the latter are the appeals for increased development assistance from developed countries and measures to improve food production in developing countries. The distinction is important in relation to the negotiations on the NIEO and in explaining the uneven progress on the negotiations. The developed countries have not generally been prepared to negotiate on any proposals which would radically alter the existing economic system and have preferred to concentrate their activities in those fields which can operate through the existing international economic order.

Before considering some of these aspects from the point of view of their impact on Australia's interests, it may be helpful to look at the extent to which Australia, or any other country, is bound by the relevant UN or UNCTAD declarations or resolutions.

(b) Legal force of the NIEO

UN resolutions are not legally binding on member countries of the United Nations whether they supported them or not. The United Nations is a political forum and the resolutions emanating from it normally have a political rather than legal force.

Nevertheless, while it is important to consider the detailed wording of any specific resolution, the reservations and observations made at the time by country representatives, and the precise voting pattern, such resolutions do have a force greater than merely 'recommendations'. According to one witness, moreover, an expression of opinion in the form of a resolution by a body of this kind is bound to have a great deal of political impact, particularly if a series of resolutions is passed year after year by substantial majorities; it may ultimately be possible to ascribe to them a 'quasi-legislative' character.

In a submission to the Committee, Professor Johnson, Professor of International Law, University of Sydney, said:

Taken as a whole . . . the resolutions concerned with the proposals for a new international economic order have a convincing level of political support and they leave no doubt that there will be continuing political pressure to secure their implementation. In the legal sphere, there is no doubt too that they represent a formidable attempt to produce a marked shift in the rules of law appertaining to economic questions. These resolutions do not as yet, in my opinion, have the force of law.⁶

(c) The Eastern Bloc

In general, the debate on the NIEO has been a North-South one. The centrally planned nations have played only a peripheral role in that, while preferring to rest behind a line that the problems are a result of colonisation for which they had no responsibility, they support the South in voting but are reluctant to be drawn into commitments. They have, however, supported the Common Fund.

Increasing pressure is being applied to them by the developing countries to make their support more positive and constructive; there has been some response to this pressure in terms of increasing technology flows to developing countries. In terms of the overall economic system, however, the potential impact seems unlikely to be large. The percentage of world trade and aid attributable to the centrally planned economies is only a few per cent of the total. Developing countries trade mainly with North America, Europe and Japan and among themselves—their trade with the Eastern Bloc is very marginal.

(d) Coherence of the developing countries

It has been a common theme that the developing countries are characterised as much by their differences as by their common characteristics, and that this will increasingly lead to a less uniform approach to issues and problems in the future. This aspect has been commented upon in the recent Interfutures report⁷ prepared for the Organisation for Economic Co-operation and Development (OECD) which

⁶ See transcript of evidence, *Official Hansard Report*, p. 264.

⁷ Interfutures, *Facing the Future*, Paris, 1979, pp. 72-3.

saw the continued existence of two complementary readings of developing country development.

In some cases variations in the internal dynamics of the response of developing countries to participation in the global economy were leading to a process by which differences among developing countries were increasing due to the particular cultural, social, economic and political differences in their various societies and the ways in which they react to challenges, especially those resulting from Western influence. Some countries are in the process of becoming full industrial partners and are already providing improved standards of living for their populations. Others are having difficulty in developing their agriculture and are seeing the numbers suffering from malnutrition increase from year to year.

Growing internationalisation is integrating the developing economies in the world economy and is having important consequences which include such things as: foreign investment, attracted by the presence of raw materials or particular agricultural products, low-cost labour and the actual or potential scale of effective domestic demand; the birth of a relatively privileged working class; the co-existence of a modern sector and a traditional sector; conflicts between social groups with differing relations with the developed countries; and rapid urbanisation with its related economic and social problems.

The Interfutures report saw this as having effects:

... which are beneficial and harmful at the same time. These economic and political similarities have given rise to a *feeling of solidarity* between élites, an effort to find a *new ethic*, a desire for *cultural emancipation*, the gradual establishment of a *platform of common proposals* which mark the beginnings of an ideological transformation of the Third World.⁸

It points out that the developed countries are disconcerted by this dual reality as regards the developing world and tend mistakenly to favour one or other of the two readings, depending on the circumstances.

Similar points were made more directly in evidence to the Committee. While recognising that there were great differences between individual countries in the developing world and that on specific issues different countries or groups of countries take different positions, it was argued that the factors tending towards unity are stronger than those that divide.

This is particularly so with respect to issues concerning relations with the developed countries where, despite all kinds of internal divisions and conflicts on other matters, there is an enormous capacity to maintain unity. A whole range of ill-defined factors of what are seen as common experiences—such as colonialism, radicalism and non-alignment—give this unity an ideological underpinning as does the general belief that the developed world has prospered at their expense and that the existing international system perpetuates past injustices.

Whatever the reasons for the continued unity, the Committee accepts that it is most likely to continue and that the Group of 77 unity is something Australia will have to come to terms with. This solidarity on matters which divide North and South, such as illustrated by Singapore's resolution on civil aviation policies at UNCTAD V, will continue to be very significant in the North-South negotiating process. This does not exclude the process employed often by Australia in the international negotiation process of using the different interests within the Group of 77 to argue particular cases within the Group; but it does imply an acceptance that the Group position is likely to be solidly maintained.

⁸ Interfutures report, p. 72.

3. Nature of the development problems

(a) The past patterns

Much is made of statistical data in looking at the process of development and the figures lend themselves to various interpretations, lending support—if used appropriately—to a variety of arguments. (For example see Table 1.)

It is undoubtedly true that the world as a whole has experienced historically unprecedented growth in the post-war years. This is true for the developed countries as a whole and it is also true for many of the developing countries.

Calculations taken over a reasonable period of time in the post-war years show that growth rates in the two groups of countries have not been very different—on average growth rates in the developed countries increased during the decade 1960–70 by 4.9% per annum, while those of developing countries increased by some 5.5% per annum (see Table 2). In the subsequent five years, the average growth in developing countries was 5.9% and in developed countries 2.8%. In per capita terms, developed country incomes grew at 3.2% per annum compared with 3.1% for developing countries for the 25-year period (see Table 3).

There is more variability among the growth rates of the individual developing countries than among those of the developed countries. Compared with the per capita growth rate of about 3.1% for the developing countries as a whole from 1950 to 1975, South Korea, Taiwan and Iraq achieved more than 5% per year; the rate was in the region of 1.5% for India, 0.7% for Bolivia, Chile and Ghana; and was negative for Bangladesh, Rwanda, Burundi and Madagascar. Between 1960 and 1976 per capita income rose by 1.5% per year in the low income less developed countries, 3.7% in those with middle-range incomes and 5.7% in those with high incomes.

Table 1. Developing countries—income levels

Based on 1976 GNP per capita in 1976 US\$

<i>Income groups</i>	<i>Number of countries</i>	<i>Population (millions)</i>	<i>Income range</i>	<i>Group average income</i>
High income	21	66	over 2 500	2 879
Upper middle income	25	248	1 136–2 500	1 465
Intermediate middle income	32	299	551–1 135	875
Low middle income	28	249	281– 550	404
Low income	41	1 194	280 or less	167
All developing countries	147	2 056	—	542
Capital surplus oil exporters	5	13	—	6 345

Source: World Economic and Social Indicators, World Bank, April 1978.

* *Note:* The use of international comparisons of average incomes per head in a common currency as a measure of living standards suffers from many defects. Such comparisons fail to take fully into consideration non-market activities and the difference in prices and in the purchasing power of national currencies, as well as income distribution. Recent studies suggest that 'real' average income levels in developing countries, particularly the poorer ones, may in terms of purchasing power be considerably higher than suggested by these figures.

* See transcript of evidence, *Official Hansard Report*, p. 970.

Table 2. Growth of Gross Domestic Product: 1960-75

	1960-70	1970-75
Low income Asia	2.4	3.9
Low income Africa	4.3	2.8
Middle income	6.3	6.4
All developing countries	5.5	5.9
Industrialised countries	4.9	2.8
Centrally planned economies	6.8	6.4

Source: World Bank, World Development Report, 1978, p. 45.

Table 3. Growth of GNP per capita in developing countries

Region or group(a)	Population (1975: millions)	Real GNP per capita (1976 US\$)		
		1950	1975	Annual growth rate 1951-75
				<i>Per cent</i>
South Asia	830	85	130	1.8
East Asia	337	170	435	3.9
Sub-Saharan Africa	309	175	285	2.0
Latin America	309	550	1 050	2.6
North Africa and Middle East	158	385	1 300	5.0
Developing countries	1 943	187	400	3.1
Developed countries(b)	654	2 378	5 238	3.2

(a) Includes capital deficit oil exporters in relevant groups.

(b) All OECD members except Greece, Iceland, Portugal, Spain and Turkey. Includes capital surplus oil exporting countries.

Source: World Bank, World Tables data.

Per capita incomes in the developing countries range from US\$110 at 1974-76 prices in Bangladesh, through US\$610 in the Ivory Coast, US\$2700 in Singapore, US\$6300 in Libya and US\$15 500 in Kuwait. The thirty-four low income countries, which contain about half the population of the developing countries, have experienced less than 1.0% annual Gross National Product (GNP) growth per capita in the fifteen years from 1960.

The Treasury submission points to the relationship between rapid growth in trade and that in GNP in developing countries. 'It is almost certainly not coincidental that the fastest growing developing countries were important participants in this trade, while the slower growing ones tended not to be.'⁹

The Committee accepts that trade can be an important factor in economic growth. The difficulties in interpreting percentage growth rates and relating them with other magnitudes in order to draw conclusions about causal relationships, however, is illustrated by the figures for centrally planned economies (CPEs). As the figures in Table 2 illustrate, the CPEs have the highest Gross Domestic Product (GDP) growth rates of all country groups—over 6.0% per annum over the same periods—with only little participation in the growing international trade.

⁹ See transcript of evidence, *Official Hansard Report*, p. 877.

There is no doubt that some developing countries have progressed dynamically in the post-war years. Those favoured with generous resource endowments have often been among the leaders but so have some without—as the Asian experience has demonstrated.

Even if the doubts the Committee expressed about the usefulness of comparisons of percentage growth rates did not hold, the Committee does not think it very helpful to talk about growth rates in developing countries being a little higher than those in developed countries when in the former case the start is from a base of US\$280 per annum, especially as a lot of that has been absorbed by population growth. Some developing countries are growing rapidly and can be encouraged and brought into the 'liberal' economic system; other developing countries will have to have their development facilitated by aid transfer and other forms of assistance, including trade accommodation.

The fact that a few countries within the system—Taiwan, South Korea, Hong Kong and Singapore—have done well does not enable much in the way of conclusions to be drawn about the existing system. Logically, at least, it would be argued that with the system changed, more countries may have been included among them; this may not be so, but if this cannot be denied it is hard to do other than meet assertion with counter-assertion.

This remains true even though there may be occasional graduates from the developing to the developed world. South Korea is the most probable example. In terms of GNP levels, Singapore may already be eligible to graduate, but it may not, in practice, wish to do so.

One of the other groups with often largely different interests and concerns is that of the oil exporters and particularly the OPEC countries. Rising oil prices are having very serious effects on the developing countries. Although it is easy in the concern about oil to lose sight of other adverse factors imposed on developing countries, the absolute size and speed of the changes in oil prices as well as the importance of oil to developing country economies gives the issue an overwhelming importance.

The commitment of the oil producing countries to the NIEO is therefore both of interest and importance. One of the first specific steps in the development of the NIEO was the International Fund for Agricultural Development set up in 1975; OPEC countries were substantial contributors to this Fund. Despite the large increase in oil prices since then, with severe effects on the developing countries, the extent of this general commitment to the NIEO seems not to have been extended. Some additional assistance has been mooted, however, to help with the contributions of the low income countries to the Common Fund.

(b) How important are international policies?

It is not the Committee's role in this report to attempt to explore the range of issues involved in the process of economic development. Criticism was made in evidence by the Treasury that the NIEO proposals 'are based on a fundamental misunderstanding of the development process'.¹⁰ This criticism was based on a number of arguments, including that the underlying belief behind the NIEO overlooks the economic progress of the developing countries in the past twenty-five years, that there is no clear distinction between developed and developing countries which enables them to form a coherent economic classification, and that the suggestions of a moral or equity argument for change and for an NIEO

¹⁰ See transcript of evidence, *Official Hansard Report*, p. 858.

are invalid both in principle and in practice. Such views are based on a number of assumptions that are irrelevant or at least are not accepted by a large number of developing countries.

Some aspects of these arguments are dealt with elsewhere in this report. A major point of specific concern to the Committee was the further argument that the economic development of a country is primarily a function of its own actions and policies, rather than being dependent upon international policies.

Certainly, inappropriate domestic policies can undo benefits gained from favourable international developments, while effective management of the domestic economy can help overcome adverse effects of international developments. It is also true that the extent to which developing countries are dependent upon the international economy varies substantially from country to country. The difference between such dependence in the case of India and that of Zaire, for example, is very marked. Yet Australia's own experience in the past decade in dealing with the effects of changes in international circumstances should point to the difficulty, even in countries with a highly developed capacity for domestic economic management, or pursuing economic policies that can be substantially insulated from developments in the international sector of the economy.

The Committee agrees that rational and responsible domestic economic management is vitally important for the developing countries.

As examples of development assistance as well as trade developments suggest, success in the development process will obviously depend upon both positive developments externally and a reasonable coming together of the structural sociological and political factors affecting the internal management of a country. Criticisms of obvious shortcomings in this field ought to be tempered, however, by awareness of the difficulties experienced by the developed countries in domestic economic management.

Moreover, there are clearly risks for world stability in a situation in which developing countries, having adopted the correct domestic policies, find their policies frustrated by what can be argued to be global policy failures at the international level.

(c) Issues of distribution

A further point is that the issue of the NIEO cannot be considered only from the aspect of economic efficiency. The fact that the growth of the national incomes of developing countries has been at levels comparable with that of the developed countries in the post-war years is not without significance. That the gap between the rich and the poor countries is widening, despite this, is similarly quite significant. Even if the argument were accepted that in logic the second aspect is irrelevant, it could not be ignored because the logic is less easily understood and acted upon by those in low income countries. Moreover, it is by no means self-evident that it is irrelevant. This becomes important when one goes below the averages—it tends to be lower income, lower growth countries that have the fastest population growth.

4. Australia's special interests in the NIEO

Because of its wealth and the advanced nature of its financial and economic and economic management structure, Australia is clearly a developed country as that term is normally understood. For a number of reasons, however, Australia has a special interest in the NIEO that distinguishes it from other developed countries. First, due principally to its great dependence on primary commodity exports, Australia's interests in a number of specific NIEO issues differ to some extent from those of many of the other developed countries. Second, in a number of other respects, such as its dependence on imports of capital and technology, as a host to many major multinational corporations and as a user of others' shipping facilities, Australia shares the experience of many developing countries. Third, its geographic location and relative isolation give Australia's interests in the issue of the NIEO a special urgency. Fourth, as a country with a small population, Australia feels particularly vulnerable in an unstable world and thus needs to have a special sensitivity to factors likely to affect international stability.

It is important to be clear on how Australia's interests and those of the proponents of the NIEO interrelate. These are looked at first in terms of the specific items of particular interest in the NIEO context or, as in the case of the seabed, related closely to the general principles underlying the NIEO debate. Subsequently, the question of broader interests at the regional and global level are examined.

(a) International trade

The NIEO proposals as they relate specifically to trade principally involve the desire by developing countries to improve their terms of trade through better trading arrangements for their primary products exports, particularly in pricing and access to markets.

Negotiations on trade questions have been conducted in UNCTAD, under the General Agreement on Tariffs and Trade and through the Multilateral Trade Negotiations (MTN). The deliberations in these forums have centred primarily on commodity questions, access to markets and reducing barriers to trade. There has been very little concerted discussion on indexation of primary commodity prices.

Developing countries have received certain concessions under the GATT, in particular through the generalised preference arrangements. They have sought, in addition, progressive elimination of barriers to their exports, control of restrictive business practices and more flexible conditions for developing countries in the use of subsidies.

For the Group of 77 countries, the preferences scheme has been too limited in scope and too easily hedged with qualifications designed to protect industries in the developed countries. Further, it chiefly benefits the more advanced developing countries. Developments in other areas of trade are regarded no more favourably.

Participants in the recently concluded round of multilateral trade negotiations agreed to consider special and differential treatment for developing countries where this was 'feasible and appropriate'. While some concrete results have been achieved in the priority area of tropical products, elsewhere progress in matters of interest to developing countries has been limited.

The fact of increasing barriers to a number of export commodities of interest to developing countries, with particular effects in the Asian Pacific region, such as steel from South Korea, led to a strong statement by the Australian Prime Minister at UNCTAD V in Manila in May 1979:

These protectionist measures must be resisted. If they are not they will put the future of the growth of developing countries into jeopardy. They will make a mockery of the talk of 'independence' and of claims that the best prospect for developing countries lies in working within the existing system. If the reward for success is to be punishment by means of new protectionist devices . . . what credence will such claims have? It will demonstrate that the economic principles by which the established countries have professed to have lived apply only to those who have arrived—not to those who are on their way.

In many respects, Australia's interests in trade in products other than commodities are neither complementary with those of the developed nor the developing countries. Australia's industrial structure makes it difficult for Australia to participate in general negotiations while, on the other hand, it cannot seek special treatment as the developing countries do.

These special circumstances of Australia's trade position led to Australia's initiative in developing country preferences in 1964 as an early means of assisting the developing countries in a way consistent with its circumstances. In a number of situations this has not been seen as sufficient to offset its inability to provide increased market access and Australia has been subjected to criticism because of its barriers to trade in commodities in which developing countries are becoming competitive.

A point made by some witnesses before the Committee was that the process of adjustment in Australia's industries must progress rapidly, not simply to provide markets for developing countries but to do so in a context in which Australia will also benefit. Nevertheless, it is worth observing that any possible increase in Australia's markets for developing country exports of manufactures, while very important in a presentation sense, is unlikely to make a significant contribution to their development. Moreover, for the most sensitive product, textiles, the domestic industry has already been experiencing a substantial rate of restructuring and textile imports on a per capita basis are as high as those of any developed country in the world; certainly the evidence given to the Committee was that they were very much higher than those of the United States, the European Economic Community (EEC) or Japan. The evidence also indicated that Australian imports from developing countries have been increasing rapidly.

In recent years, Australia has come under increasing political pressure from the Association of South-East Asian Nations (ASEAN) countries in particular to allow greater access for their exports in the Australian market. Increased access has, however, been viewed as a potential threat to employment in some Australian industries such as textiles manufactures, footwear and clothing apparel as well as some whitegoods and metal manufactures; in the current economic downturn these requests have posed difficulties for the Australian Government.

There is a growing acceptance, however, that this problem will intensify and has to be dealt with in a more positive way.

The Committee concludes that it is not enough for Australia to affirm its belief in the virtues of the 'western', liberal market international system. Australia has to indicate that in a practical sense it is prepared to live by its precepts and—where they cause adjustment problems as they do to Australia—it must be prepared to face them as it must press others to face them. Rhetoric in support of trade liberalisation without action is now harmful. It may well destroy credibility and trust and have serious consequences for Australia's future.

(b) Commodity trade

Many developing countries still remain highly dependent on the export of a small number of primary commodities. Overall, 60.0% of developing country earnings are from commodity exports. Bangladesh, for example, derives over 70.0% of its export earnings from jute and jute manufactures, and Burundi is dependent on coffee for 88.0% of its export earnings. Yet, the major preoccupation in successive rounds of the GATT negotiations was with industrial products, with little progress being made on improving market conditions for primary commodities.

Australia has been greatly concerned about the limited progress made in the commodities trading system in the seven rounds of trade negotiations held since 1947 under the GATT. The major industrialised countries have, in these negotiations, been preoccupied with trade in manufactures and the gains achieved in these negotiations have been of much greater benefit to them than to primary product exporters. In the recently concluded MTN, Australia argued strongly for measures for greater stability and predictability, including improved market access, for primary commodity trade. Australia also sought reductions in barriers to export trade in processed agricultural and mining products.

Some 85.0% of Australia's export income consists of primary commodities—in approximately even proportions of agricultural and mineral commodities. Although a number of other developed countries, including the United States, are substantial exporters of primary commodities, it is the almost total dependence on such commodities and related processed products that is critically important to Australia. In its concerns about the general conditions of international trade and the institutional arrangements under which it takes place, Australia's interests largely coincide with those of the developing rather than the developed countries.

At the same time, for many of these commodities Australia is a competitor of the developing countries. This is the case, for example, for a series of commodities ranging from sugar to bauxite, tin or iron ore. This fact of Australia's competing relationship has a number of important implications. Australia may be seen as being able to use its greater competitive strength, or to disadvantage its developing country competitors, by under-pricing to gain markets. In the NIEO context, this view may have significance if the desire to extend to primary commodities the preferential trading arrangements, presently applicable to manufactured goods, develops momentum. It is also important in the context of commodity producer groups where the attitude of Australia may be important but in which it may have difficulty pleasing both competitor developing countries and the developed countries that expect Australia to behave with their interests in mind. It was indicated to the Committee that this kind of divergent pressure has already arisen in the case of the International Bauxite Association.

Australia's interests and those of the developing countries do converge, however, with respect to the kind of international trading rules and arrangements that apply to commodity trading. Australia's dissatisfaction with international trading conditions for commodities is of long standing, stemming primarily from the frustration of the high hopes it held that the institutions established in the immediate post-war years would be able to resolve some of the problems which had bedevilled commodity trade in the inter-war years. In general, the international trade rules for commodities established at that time were more permissive from the importer's point of view than those for industrial products and were not closely adhered to by member countries of the GATT.

For agriculture, in particular, these arrangements proved largely unable to resolve the problems in trade. Agricultural protection has become more extensive and world markets more unstable. Until recently, minerals markets in general were not as important to Australia as those for agricultural products, but some, such as those for lead and zinc, continued to be similarly unstable and affected by the actions of particular countries.

A further concern with the established economic order so far as commodities were concerned was that the existing rules did not deal effectively with the problems of restrictive trade practices and state trading, both important in commodity trade. The developing countries in their concerns at the failure of the international trading rules for commodities have been particularly disturbed at what they see as the lack of competitiveness of international commodity markets. This is a subject where, as the evidence to the Committee made clear, meanings and perceptions differ widely. Yet these differences are fundamental in shaping attitudes and, ultimately, policies. Thus it became evident to the Committee that the term 'competitive' or 'free' market meant very different things to different people. To some it has a precise economic meaning from which certain conclusions about its efficiency can be drawn; to others it means merely that a producer has a market to which he can sell his product without hindrance and obtain a price which is set on the market on that day. Yet, the evidence of several witnesses to the Committee was that, although many of the world's commodity markets do meet the second criterion and are thus competitive in a short-term market clearing sense, this is not what economists normally mean by a competitive market and from which they draw their conclusions about the efficiency with which the world's resources are used. Few international commodity markets meet the specification of the economist's competitive market due to a whole host of government or industry market interventions that affect production levels or supplies put on the market. How significant these market imperfections might be in any specific case the Committee was unable to judge from the evidence before it. For commodities such as wheat or sugar, where only a very small part of total world production or consumption is likely to be determined by the price set on world markets, it accepts that the effects are probably large; for some others they may not be very great overall.

Nevertheless, for the Committee the important point was that this represents a further example where a constructive approach to the issues of the NIEO seems improbable until some agreement on the facts and the terms used to describe those facts can be achieved. The argument about reliance or not on the 'free' market in these contexts seems to have limited relevance to the real issues involved; to the Committee it put into an even wider context the words from the Prime Minister's statement at UNCTAD V quoted earlier.

While there are differences in degree and emphasis as to the particular problems seen as important by Australia and the developing countries, the attempts by the developing countries to achieve improved conditions of trade in many of these commodities parallel many of those of Australia. Consequently Australia has generally provided support over the years for such efforts in international forums. In the field of commodity arrangements particularly, Australia has supported international action not only on those commodities where it is an exporter but, in such commodities as coffee and cocoa, where it is a consumer.

The developing countries have brought their objectives for commodities into the NIEO by means of the Integrated Programme for Commodities. A key objective of this program was the setting up of international commodity stocking and pricing arrangements for eighteen commodities under the general framework of a common fund for financing stocks, where feasible, of the commodities concerned.¹¹

Under the IPC, as initially envisaged, negotiated price ranges for the commodities within agreed international arrangements would be periodically reviewed and revised taking into account, among other things, movements in prices of imported manufactured goods, exchange rates, production costs, world inflation and levels of production and consumption. The program would be managed through internationally agreed supply-management measures including export quotas, production policies and, where appropriate, multilateral long-term supply and purchase commitments. To complement these measures and to provide for those commodities not amenable to stock or effective supply management measures, an improvement and enlargement of compensatory financing facilities for the stabilisation of export earnings of developing countries was sought, together with an improvement in market access for the primary and processed products of developing countries. At the core of the program was the proposal for a Common Fund to finance the program for all the commodities and this is discussed in the next section.

In the years since the action under the IPC started, an international agreement has been concluded on sugar within UNCTAD, though it has not yet been ratified by the US; the EEC, although a major market influence, is not a participant. Prospects for the successful conclusion of many other agreements are limited, although for rubber an agreement seems likely and for tea and hard fibres there is some prospect of the conclusion of some arrangements. Agreement has also been reached to establish a producer-consumer forum on copper, but the question of an international commodity agreement for copper remains unresolved. International commodity agreements already exist for cocoa, coffee—neither of which is active—and for tin. The unsuccessful negotiations for a new grains arrangement were discontinued earlier this year.

The Committee concludes that Australia's trading position would be improved as a result of any increased stability in world commodity markets that the negotiation of international commodity arrangements could achieve. In 1975 Australia's exports of the eighteen IPC commodities amounted to 23.0% of total Australian exports, while imports of the eighteen commodities amounted to 3.0% of total Australian imports.

¹¹ The commodities to receive priority attention were bananas, bauxite, cocoa, coffee, copper, cotton, hard fibres, iron ore, jute, manganese, meat, vegetable oil seeds, phosphates, rubber, sugar, tea, tin, tropical timbers.

Australia has participated fully in the deliberations and negotiations under the IPC on those commodities of particular trading interest to Australia, although in many cases, such as rubber, this is from more general policy considerations rather than because of a direct commodity interest.

The Committee concludes that Australia should continue to participate fully and constructively in these discussions with the aim of achieving improved conditions for the international trade in primary commodities.

(c) The Common Fund

As already indicated, the original purpose of the Common Fund was to provide finance for buffer stocks and other possible stocking arrangements for individual commodities which might be agreed to in the context of international commodity arrangements. The underlying view was that such arrangements would contribute substantially to reducing the problems of economic instability which developing countries, in particular, experience from fluctuations in earnings heavily based on commodities. It was considered that the lack of assurance of adequate finance for such purposes had been and would be a barrier to the successful negotiation of such agreements in the past. The proposal for a Common Fund also visualised a role in providing finance for measures other than buffer stocks, through what has become known as the 'second window'.

Although agreement in principle that a Common Fund should be established was reached at the Conference on International Economic Co-operation in 1977, developed and developing countries held markedly different views over the nature and role of an eventual Common Fund. Although initially taking much the same position of opposition to the Common Fund as the major developed countries, Australia's position subsequently was changed when it indicated, first in the Commonwealth Heads of Government Meeting (CHOGM) and subsequently in UNCTAD, its support both for the concept of the Fund and for the principle of direct government subscriptions to the Fund. Australia also accepted, in principle, that the Fund could, in addition, undertake certain measures other than those associated with buffer stocks—the 'second window'—although indicating that this had to be carefully defined and should not duplicate similar work already undertaken by other international institutions.

Australia, in supporting the Common Fund's 'second window', has attempted to take the lead in identifying what the 'second window' could do, and where there were gaps that could not be filled by existing international institutions. Examples were drawn from Australian experience, as with the barriers to the introduction of new technologies such as Siroset, containerisation and objective measurement of wool, where significant feasibility and demonstration expenditures were necessary to overcome strong resistance to change. These efforts helped to achieve a greater degree of general agreement on the functions to be covered by the 'second window'.

Australia's direct interest in the Common Fund is hard to assess accurately. As a commodity exporter, it has traditionally had a strong interest in achieving more stability in commodity trade and some of the commodities listed as priority items are items of export interest to Australia. The outcome of negotiations on the subject could have important implications for Australia in either positive or negative ways. Its indirect interest stems from the fact that the idea of the Common Fund has developed a political and presentational importance to the developing countries which far exceeds any likely role it may be able to perform, useful though that may be.

The Committee concludes that the Australian approach in this issue has important lessons for other issues. Since Australia's interests are likely to be affected, a constructive and helpful approach is likely to result in Australia being given a more receptive hearing where its interests may need protecting. At the same time, in view of the importance attached to the Common Fund proposals by developing countries, Australia's approach to them will continue to be an important element in its economic and political relationships with those countries. In general, therefore, Australia's strong support has stemmed from general policy interests rather than from an expectation of overall commodity gain from the Fund's operation.

Although a measure of general agreement among developed and developing countries on the principles and general elements of the Common Fund was reached earlier in 1979, considerable difficulty seems to remain in settling a range of outstanding issues regarding its operation.

The Committee recommends that Australia continue its positive approach to achieving an effective international agreement on the Common Fund and that it take whatever initiatives are rational overall and in accord with its own interests and with those of the developing countries in pursuing that objective.

(d) Transnational corporations

The role of the transnational corporations (TNCs) in the development process provides difficult choices for developing countries. They have a need to encourage foreign investment and to obtain skills and technology, which are often brought about through transnational corporations. They also have a concern, however, about the increasing domination of world trade by TNCs and by the possible conflicts of interests between the TNC and the host country.

In addition to arguing their right to determine compensation for nationalising TNCs under domestic laws, referred to earlier in this report, developing countries have also expressed concern about the alleged capacity of TNCs to exert undue economic and political influence on governments of developing countries which are sometimes economically weaker than the TNC concerned; the threat TNCs could pose to developing countries' sovereignty over their national resources; the misallocation of resources in domestic economies that can result from TNC operations; the excessive repatriation of profits by TNCs and restrictive business practices and corruption which occasionally accompany TNC activities in host countries.

To meet such concerns, the United Nations Economic and Social Council (ECOSOC) established a forty-eight member Commission on Transnational Corporations in 1975, on which Australia was a member until 1978, to formulate a Code of Conduct for TNCs. Developed countries argue that this code should be voluntary not mandatory and should include guidelines as to the responsibilities of both governments *vis-à-vis* TNCs as well as for the TNCs themselves. A working group has also been established to develop a separate international convention on corrupt practices and illicit payments by TNCs.

In the Committee's view, Australia probably has a greater sensitivity to the concerns of developing countries over TNCs than many developed countries. It acts as a host to some of the largest United States and European firms, though it also has a few multinationals of its own such as Thomas Nationwide Transport and Broken Hill Proprietary Limited. In general, however, Australia has shared

many of the views of developed countries about the benefits which can flow from controlled investment by TNCs. As a member of the OECD, Australia also participated in the formulation of the OECD Code on Multi-National Enterprises.

The dilemma in developing such measures lies more specifically for developing countries in drawing up regulations which will protect those countries' national interests, but which will not simultaneously drive away foreign investment. The need for the developing countries to strike an appropriate balance on this issue is particularly critical in the NIEO context, because TNCs also affect other issues in the proposals such as foreign investment, international trade and the transfer of technology. One witness from industry indicated that conditions laid down in some countries were unacceptable to foreign mining companies and that this was driving development away from countries that needed it.

The Committee recommends that a process of consultation be undertaken with interested Australian companies to determine to what extent they can accept the codes of conduct offered by host governments.

(e) International monetary issues

In the NIEO context, the principal objectives of the developing countries regarding the reform of the international monetary system were the creation of additional liquidity with particular regard to the needs of developing countries, the establishment of a link between special drawing rights (SDRs) and additional development financing in the interest of developing countries, and the maintenance of the real value of the currency reserves of developing countries.

More generally, a review was sought of the operation of the IMF, to enable developing countries to make more effective use of its facilities. Increased participation was also sought by developing countries in the decision-making process in international financial institutions.

Some developing country objectives on international monetary arrangements have been met, or are in the process of realisation, as a result of reforms already agreed to by all member countries of the IMF.

Indeed, the pursuit of reform in the international monetary system has been one of the IMF's preoccupations and has been given added urgency by the serious monetary disturbances of recent years, most notably the breakdown of the Bretton Woods system of fixed exchange rates in 1971. In consequence, members have revised the IMF's Articles of Agreement designing them to reflect more accurately existing international monetary arrangements.

With the SDRs, a trade-weighted composite of the currencies of major international trading members of the Fund (including Australia), now the unit of account of the IMF, and eventually it is envisaged one that will become the principal reserve asset of the international monetary system, the role of gold has been phased down. Part of the profits from gold sales largely financed the Trust Fund established by the IMF in 1976, to provide additional financial assistance to the poorer developing country members of the IMF.

Various IMF measures taken to meet perceived needs include the Oil Facility to provide emergency financing to countries experiencing balance of payments problems arising from the quadrupling in oil prices in 1973, the Extended Fund Facility set up to help correct balance of payments problems arising from structural maladjustments in a member's economy, the Compensatory Financing Facility which assists member primary exporting countries to finance balance of payments deficits arising from a shortfall in export receipts, and the establishment

of a Supplementary Financing Facility which could be of particular assistance to developing member countries by expanding financial assistance to members with balance of payments imbalances which are large in relation to the size of their quotas and their economies.

Australia has, with the other developed countries, generally supported those moves to modernise and improve the operations of institutions such as the IMF, the World Bank and the Asian Development Bank, which are considered by those countries to be consistent with maintaining the efficiency of the institutions and which will not jeopardise international monetary stability.

Despite these measures which were generally applicable to most IMF members, developing countries still see the need for more extensive structural change in the international financial system. They are pressing, as well, for an enhanced role in the decision-making processes on international monetary matters which they see as, to a large extent, decided outside the formal institutional arrangements. Demands by the developing countries for greater participation in and management of the international financial institutions have not been the subject of specific international negotiations to date.

As in a number of other issues, the issue of perception and fact in the case of international monetary reform is important. The NIEO concerns with the financial institutions stem in part from a belief by the developing countries that the richer developed countries have the major control of the monetary institutions and that the developing countries are thereby disadvantaged. If they run a balance of payments deficit, they argue, they can only obtain credit from the institutions under tight conditions that involve devaluation and achievement of balance of payments equilibrium over a relatively short period irrespective of the domestic economic and political consequences. Alternatively, however, if the United States for example runs a deficit, other countries hold additional dollars and the pressure for adjustment is much slower and much less disruptive.

The Treasury in evidence argued validly that such factors were a reflection that these countries, were, in effect, late in the development stakes; and that those countries that have economic power naturally have more options, more flexibility and more resilience. In that sense, the developing countries are at a disadvantage.

The developing countries' perception takes this disadvantage to be a consequence of an institutional arrangement that is capable of being changed to remove or reduce that disadvantage. It is the Committee's view that, while taking account of the perception, Australia's approach should be concentrated on the real disadvantage and to look for ways of modifying the international financial institutions and the related transfer systems to compensate for the disadvantage in a reasonable way, while, at the same time, attempting to convince the developing countries that this is a reasonable approach.

(f) International development assistance

Despite the concern of the NIEO about transfers of resources, development assistance as such has received less specific attention than the trade-related items. Nevertheless, developing countries have sought accelerated achievement by developed countries of the financial resources transfer targets set in the International Development Strategy for the Second Development Decade. These targets provide for annual transfers by developed countries of resources equivalent to a minimum of 1.0% of their GNP at market prices, of which 0.7% should be in the form of official development assistance (ODA).

The 1.0% target, however, has tended to be less central to the debate in recent years, the Group of 77 developing countries seemingly having decided to treat it rather as a 'broad indicator of financial co-operation'. The 0.7% target, nevertheless, remains important as the principal target for increasing resource flows.

Only three of the world's traditional development assistance donors, Sweden, the Netherlands and Norway, have achieved the ODA target. The combined ODA-GNP ratio of member countries of the Development Assistance Committee (DAC) of the OECD in 1978 to which Australia belongs was 0.32%, as compared to 0.34% in 1970. After adjustment for price increases, the net flow of Australia's ODA has not increased in real terms since 1967.

Australia's commitment to the 0.7% target was reaffirmed in 1976 but, because of economic and budgetary circumstances, it has considered it inappropriate to set a date for the achievement of the target; its ODA represented 0.45% of GNP in 1978. At the Conference on International Economic Co-operation in June 1977, Australia joined with other participants in agreeing that, irrespective of whether or not developed countries had accepted the 0.7% target, they should increase effectively and substantially their official development assistance to recipients.

The quality as well as the quantity of development assistance has also been an issue of concern to developing countries. In 1972 the DAC recommended a minimum combined grant element of 84.0% for donors' loan and development assistance in grant form to developing countries with higher targets for official development assistance to the least developed countries.

The Group of 77 countries has sought further improvements in these norms by proposing that at least 90.0% of official aid should be in the form of grants or loans on 'soft' terms, and that loans should have a minimum grant element of 50.0%. In June 1977 the Conference on International Economic Co-operation agreed that developed countries should raise the quality of their development assistance, though not to the full extent of the proposals of the Group of 77.

Subsequently, the DAC adopted a revised terms recommendation incorporating the measures for improving the terms of development assistance agreed at the CIEC. In 1977 Japan was the only DAC member not to achieve a grant element percentage higher than the new target figure. Ten of the seventeen members achieved a percentage higher than 95.0%, five achieved a percentage between 90 and 95 and one had a percentage between 86 and 90.

The view taken by Australia has been that the quality of development assistance is as important as the quantity, and in recent years it has placed increased emphasis on the concept of development assistance implying a more intensive co-operative relationship with recipient countries. Australia's development assistance is extended in grant form and it has had no difficulty, therefore, in meeting and accepting any increases in targets concerned with the terms on which development assistance is granted.

The improvements in the quality of development assistance sought by the developing countries also embraced, for official development assistance, its untying from the procurement of goods and services in the donor country. It was agreed at the CIEC that developed countries should untie their official development assistance flows to the maximum extent possible, endeavour to mitigate the disadvantages of tying, and seek multilateral arrangements for the reciprocal untying of development assistance.

In 1978, 73.2% of gross Australian ODA was untied. Multilateral development assistance was untied with the exception of a small amount to the Asian Development Bank's Technical Assistance Special Fund for the use of Australian consultancy services. A large proportion of untied bilateral ODA consists of budget support to Papua New Guinea. Bilateral project development assistance to countries other than Papua New Guinea, food aid and technical assistance have been tied but a number of important relaxations have been introduced in respect of project development assistance.

Australia has supported attempts within the DAC to resume discussions held in 1977 on an agreement for the reciprocal untying of a substantial portion of members' development assistance programs. The discussions have been suspended because of insufficient donor support for an agreement and the political inability of the US to participate in an agreement.

(g) Debt relief

For all developing countries, debt-service payments have grown from an annual average of 9.6% of export earnings during the 1960s to an estimated 21.0% in 1977. UNCTAD has estimated that at the end of 1977, the total outstanding external medium-and long-term debt of developing countries (including private borrowings) amounted to \$US240 billion. Although the extent of this debt is clearly substantial, the evidence to the Committee did not suggest that it was necessarily at a level giving undue concern. This would depend, of course, both on the economic conditions facing the debtor countries and their ability to earn the foreign exchange received for debt servicing; and particularly with private bank lending where borrowings are for relatively short periods, the willingness of lenders to roll the debt over.

The initial developing country proposals regarding official debt were for generalised debt relief, including a moratorium on official debts of the most seriously affected of the developing countries; a cancellation of debt of the least developed, land-locked and island developing countries; debt relief to other applicant developing countries based on a common set of factors providing for such things as waivers, postponement of interest payments and/or amortisation and cancellation of principal; and program assistance from the multilateral lending institutions in an amount not less than their receipt of debt service payments from debtor countries.

Developing countries were also seeking a consolidation of the commercial debts of interested developing countries and a rescheduling of their debt-servicing liability over a period of at least twenty-five years; and suitable provision for funding short-term debts which might include, *inter alia*, an appropriate financing medium.

The Committee considers that generalised debt relief ultimately may hinder the ability of developing countries to borrow on the international financial markets—a view held also by many of the major developing countries interested in raising funds on the international market. It endorses, therefore, Australia's support for the developed countries' case-by-case approach to the resolution of the debt problems of developing countries as being consistent with the interests of the developing countries and with Australia's national interests.

In practice, a significant convergence of the views of developing and developed countries on indebtedness has emerged with guidelines agreed that set out a broad

basis for negotiations between creditors and debtors aimed at a mutually satisfactory and equitable solution to debtors' problems with special measures for the poorer developing countries.

Some countries, notably Canada, Sweden and the Netherlands, announced that they would be converting previous official loans to the least developed countries (LLDCs) to grants. Subsequently, the UK also announced the cancellation of debts owed by seventeen of the world's poorest countries amounting to \$A1.5 billion.

Currently Australia extends its official assistance in grant form. In the past, loans have only been made where it has been clear that the recipient country, for example Fiji and Papua New Guinea, will be able to accommodate the repayment burden from the earnings of the project. It is the Committee's view that, as a relatively small creditor, Australia has a limited role to play in discussions of debt relief.

(h) The least developed countries

Since UNCTAD II in 1968, particular attention has been given in the discussions in international forums to the plight of the least developed countries and their attempts to increase their rate of economic development. At the same time, it is apparent that the more practical proposals of the NIEO will not provide, in any real sense, any substantial benefit to the least developed of the developing countries. Yet attempts have been made to look at the special problems of the poorest of the developing countries.

By resolution 3202 of the Sixth Special Session, the UN adopted a special program of emergency and other measures to mitigate the difficulties of developing countries most seriously affected by adverse economic circumstances—primarily the crisis caused by the increases in the price of oil.

The special program contained two main initiatives—an Emergency Operation and a Special Fund. The Emergency Operation, designed to provide short-term balance of payments relief to MSAs and to which Australia contributed \$A40 million, was quite successful.

The Special Fund was designed to provide assistance to MSAs over a longer period. It was envisaged that US\$3 billion would be contributed to the Fund, but great difficulty was encountered in attracting contributions. Although held up by a number of developing countries, particularly the MSAs themselves, as a 'pillar of the NIEO' the Fund is now essentially moribund with only US\$2 million at its disposal.

Despite the frequent calls for action, LLDSs remain in a position similar to that confronting them at the beginning of the decade. According to recent UNCTAD figures, average annual per capita income for the LLDCs grew by only US\$4 in the period 1970–77, from US\$131 in 1970 to US\$135 in 1977—a real per capita growth of only 0.6%.

Australia's ability to direct assistance to these countries, given its existing overall development assistance commitment, is limited by its special responsibilities to Papua New Guinea and by obligations to other countries in Australia's neighbourhood, notably the South Pacific and ASEAN countries.

As well as some bilateral official financial assistance and food aid, much of which goes to MSA countries, Australia also provides assistance to a number of MSA and developing island countries through its \$A16.4 million contribution to the CIEC Special Action Programme. Half is being channelled through the International Development Association (IDA) over the period 1978–79 to 1980–81.

The other half is being disbursed as grants to eligible regional Commonwealth countries, including \$A1.6 million to Bangladesh and \$A0.6 million to Western Samoa, both LLCs. Overall, however, its contribution to the least developed countries is very modest, amounting to no more than about 6-7% of its total development assistance.

Australia abstained on the United Nations resolution establishing the Special Fund for land-locked countries, another category of countries judged to be specially disadvantaged, regarding it as constituting an unnecessary proliferation of international funding arrangements; the fund has encountered general difficulties in attracting financial support.

Developing island countries have also been recognised internationally as having particular problems requiring special assistance. Many face major difficulties with transport, communications and distance from market centres as well as, in many cases, small economies and low resource endowment. Australia's geographic position gives it a special interest in developing island countries in the South Pacific region. It has expanded its South Pacific bilateral development assistance program to a level of \$A84 million over the three-year period, 1979-82. Strong support is also given to the work of the multilateral organisations operating in the region such as the South Pacific Commission and the South Pacific Forum, the Economic and Social Commission for Asia and the Pacific (ESCAP), the United Nations Development Program and the Asian Development Bank.

The provision of development assistance, whether in financial form or as transfers of technology, is especially complex for the least developed of the developing countries. It requires careful evaluation and close co-operation with the recipient countries to ensure that the assistance is both relevant and capable of being absorbed. That these countries have particular significance was acknowledged in Resolution 122 (V) at UNCTAD V¹², whereby the more advanced developing countries accepted a degree of responsibility for assisting them. The Committee regards the problems of the least developed countries, especially those in the region¹³, as having particular significance in the NIEO context. It recommends that in the context of the NIEO the problems of development assistance to the least developed countries be given special attention.

(i) Food aid and food security

Following the food crises of 1972-73, the recommendations of the World Food Conference (Rome 1974) and the UNGA Seventh Special Session in 1975, on food aid and food security, form an important part of the new international economic order agenda.

The World Food Conference singled out five priority requirements: the need for increased external assistance to expand food production in the developing countries; a minimum foodgrains aid target of 10 million tonnes per year guaranteed under international agreement; improved world food security through an internationally co-ordinated foodgrains stockholding system; preferential prices and access to supplies of foodgrains by the poorest developing countries which cannot pay what are frequently sharply rising market prices in times of necessity; and the general raising of nutritional standards in developing countries.

As well as arrangements for monitoring progress on the implementation of these longer term measures by the World Food Council, the International Fund

¹² Resolution 122 (V), Comprehensive New Program for Action for the Least Developed Countries.

¹³ See, for example, Senate Committee Report, 'Australia and the South Pacific', 1978.

for Agricultural Development was brought into being to finance agricultural projects primarily for increasing food production in developing countries.

Negotiations relating to world foodgrains security took place in the International Wheat Council and the Multinational Trade Negotiation Grains subgroup, though with little success. Some countries, including Australia, are already committed to contribute fixed amounts towards a regular food aid target of not less than 4.5 million tonnes per year under the Food Aid Convention (FAC) of the International Wheat Agreement and endorsed the 10 million tonne per annum target proposed for the new FAC. Given the failure of the international wheat negotiations, this is now in abeyance.

Several countries, including Australia, have also contributed towards a proposed 500 000 tonnes International Emergency Food Reserve. Australia is also developing the concept of assistance to specific and identified nutritional impact projects in developing countries as part of its general development assistance program.

Although food aid shipments have increased since the World Food Conference in 1974, to 8.8 million tonnes in 1976–77 and to an estimated 9.3 million tonnes for 1977–78, they fall short, however, of the 10 million tonnes target established at the Conference.

While the world food situation overall has improved at least temporarily, per capita food production in some food priority developing countries has actually declined. In the longer term, over the past twenty years or so, global food production has been growing at a level just slightly ahead of world population. Much of this has gone to increase per capita consumption in the richer countries, and much of the growth in food production has occurred in the richer countries. Per capita food production in some of the more vulnerable countries has been declining.

The generally good harvests in the main producing areas in recent years seem likely to have clouded the issue and to have reduced the concerns to achieve longer term solutions to the world food problem. Despite the actions taken internationally, given the possibility of one or more major food production areas suffering particularly bad seasons in the next decade or so, major problems could occur.

Australia has traditionally recognised its role as a major supplier of food aid and has taken constructive initiatives in this field internationally. Nevertheless, difficulties have arisen from time to time through conflicts with commercial marketing, particularly as the demand for food aid tends to arise most sharply when the overall food market is tight. Most producing countries, such as Australia, in supporting such measures as an international system of stocks, designed to offset the very high prices at times of shortage which puts food beyond the reach of poor countries, have argued that the establishment of such stocks has to be negotiated in a commercial context. Given the failure of the international negotiations on grains to date, the risk of food insecurity on the part of the poorer countries remains high. The issue therefore remains a major unsettled element in Australia's international relationships and in the North–South discussions.

The long-term prognosis, therefore, is for recurrent periods of food scarcity, when the poorest developing countries will again face serious problems in meeting their essential food needs. The implications of a major food crisis at the global level—without large stocks being held by the main grain producers—could be very serious for international political relationships.

In the Committee's view, Australia has a particular role to play as a food supplier to much of the developing world and has a good historical record in the provision of food as aid. It recommends that Australia should continue to press strongly for international action to provide an effective system of global food stocks to help offset intermittent problems of world food scarcity as well as for continuing efforts to enlarge food production capacity in the developing countries themselves.

(j) Technology transfer

Developing countries consider that they have not benefited adequately from available technology and scientific knowledge and have urged the adoption of an International Code of Conduct on the Transfer of Technology to facilitate the effective transfer of technology from developed to developing countries under reasonable terms and conditions. Work is proceeding in order to draw up such a code, which would be directed at both governments and enterprises.

Fundamental questions still to be resolved, however, include whether the code should be mandatory or voluntary and whether it should apply to intra-firm transfers across national borders (the problems of TNCs). Both developed country governments and private sector interests have warned that a code which attempts to do more than provide a series of guidelines which should be followed in the transfer of technology could hinder the flow of technology to developing countries and be counterproductive.

On this issue, once again Australia's interests conform neither with those of the industrialised countries, which are mainly net exporters of technology, nor with those of the developing countries. Australia, although a net importer of technology, has, however, generally shared the views expressed by developed countries over the proposed code—particularly in relation to whether such a code should be voluntary or, as the developing countries wish, mandatory.

There have also been calls for a range of other measures such as the establishment of a network for the exchange of technological information, the development of appropriate or 'intermediate' technology suited to the needs of developing countries at particular stages of development, the establishment of quantified scientific and technical targets for expenditure by developed countries, and measures to deal with the reverse flow of technology or the 'brain drain'.

An important element in the transfer of technology field is the matter of patents. The Committee is aware that the availability and cost of patents to developing countries is a major consideration and it endorses the assistance Australia is providing to them on patents co-operation. Australia's response to international demands in the patents field is to be encouraged and the Committee acknowledges the work being done by the Patent, Trade Marks and Designs Office as outlined in their 1978–79 Annual Report.

The Committee regards the transfer of technology as a particularly critical element in the development process. It acknowledges that Australia cannot expect to take a major role on this issue in international discussions, except where it has special expertise. An important stimulus to Australia's contribution to the transfer of technology to developing countries is the Consultative Committee on Research for Development established in 1977 to assist in identifying research and research-related projects, institutions and programs which benefit developing countries.

Australia has also supported the Regional Technology Transfer Centre in Bangalore set up in 1977 to facilitate technology transfer among ESCAP members.

(k) Seabed and marine resources

Although not formally part of the NIEO, a related issue is the international effort to elaborate and codify the rights and duties of states with regard to jurisdiction in marine areas and the resources of the sea and the seabed. A key issue in international negotiations has been the system by which the extensive resources of the seabed, declared by UN resolution to be the common heritage of mankind, are to be exploited. While developed countries have accepted the principle of an international authority, they have argued for an authority with clearly defined powers and limited jurisdiction. Developing countries argued initially at least for an authority with exclusive jurisdiction and for the proceeds of exploitation to be distributed primarily to them.

Compromise has been sought between the main interests of the two groups. Developed industrial countries, for example, with strong economic and strategic interests in the minerals on the deep seabed, also have a strong interest, as maritime powers, in navigation rights within 200 nautical mile zones. Conversely, coastal states, the majority of which are developing countries, have sought increased rights over the living resources of the sea and have promoted the concept of the 200 nautical mile exclusive economic zone.

At recent sessions of the United Nations Conference on the Law of the Sea, progress has been made towards resolving some hard-core issues that have resisted earlier efforts at compromise. While many issues remain to be resolved, there is renewed hope that a widely accepted comprehensive convention—the objective of Australia and many other states—will be realised. Although outside the formal NIEO, the International Seabed Authority, with its taxing and regulatory powers, if achieved, would imply important changes for international economic and political relationships.

(l) Shipping

Associated with the NIEO has been an attempt by developing countries to achieve a Code of Conduct on Liner Conferences. This arose from an increasing international concern in the late 1960s and early 1970s, among developing countries in particular, about liner conference practices; the desire on the part of many developing countries to increase their participation in the carriage of their own trade; and the recognition of a need for formalised consultation procedures between shipowners and shippers.

Following the rejection of a draft code drawn up by shipowners' associations in Europe and Japan at UNCTAD III in 1972, a convention was drafted within the UN system and adopted in 1974. Although not adopted unanimously, the developing countries were supported in their backing of the convention by a number of developed countries, including Australia, Japan, France and West Germany.

The Convention will come into force when ratified by at least twenty-four countries responsible for 25.0% or more of world shipping tonnage in 1973. The first criterion has already been met with the ratification by a substantial number of developing countries and the German Democratic Republic; a number

of countries including the USSR, China and the Republic of Korea also indicated their intention to accede to the convention at UNCTAD V. The second criterion, however, has not yet been met.

A major feature of the Convention is the so-called 40/40/20 rule, which in effect reserves 40.0% of cargo to exporting countries, 40.0% to importing country carriers and 20.0% to third country carriers. At UNCTAD V in Manila, however, the European Economic Community announced a common approach by member countries which would provide for individual EEC member ratification of the Convention subject to some reservations, the most important of which is that the 40/40/20 rule should not apply between flag carriers of EEC countries. If ratification on this basis were accepted and, given the size of EEC shipping tonnage, this would bring the Convention into force.

Australia has decided at this stage not to accede to the Convention. This position is based on an inability to support the Convention's strict cargo reservation provisions and because Australia has argued that it does not accept the implicit philosophy of the Convention that the conference system as such is desirable; it also argues that it sees the mandatory international conciliation of disputes between shippers and shipowners as possibly being costly, time consuming and ineffective. It has indicated a readiness to consult with any developing country which considers its participation in Australian trade has been hindered by Australia's non-accession.

The Committee is aware of the reasoning behind the Australian position. In the light of the growing importance of the issue in the Third World context, it hopes that the policy would be reviewed from time to time to ensure that the broader Australian interest is being fully met.

(m) Progress on the NIEO

The NIEO is, as the Committee has already observed, part—albeit an imprecise part—of a long historical process; this process is itself a continuing one which has no obvious finite ending. Discussions, negotiations, shifts in circumstances, changes in pressures or bargaining positions and strengths, assurances of interests, changes in ideas and understandings are all proceeding in a way which affects these interrelationships and will continue to do so.

Progress, even if a common definition of that term could be determined, is not easy to pinpoint. Some of the measures which are germane to the NIEO situation were initiatives taken or initiated before the NIEO was formally developed, such as the generalised scheme of preferences for developing countries. The establishment of aid targets was part of the process and, although not achieved, can be considered a presentational achievement. Some progress has been made in access for developing country exports apart from preferences. Some adjustments have also been made in the structures of major institutions, such as the IMF, to reflect more specifically the interests of developing countries. Even with these qualifications, however, some positive achievements, albeit small, have been made, though in a number of cases their importance still has to be determined. Progress on the Common Fund is evident, for example, but the details of the Common Fund have still to be negotiated. Some progress has been made on emergency food provisions, though negotiations for the main food reserve scheme are in abeyance. The Codes of Conduct for transnational corporations and for the transfer of technology are being negotiated by consent and, while the pressures are there for change, how effective those changes will be has still to be determined.

These changes are not totally dependent upon the South's pressures; without them, however, even where the countries of the North have accepted a moral or other responsibility to respond to the articulated needs of the South, their willingness or ability to translate that into effective action is commonly limited. In particular, their scope for action is often dependent upon the private interests concerned, or their public opinion acknowledging, as a result of international pressure, that change is inevitable. Continued pressure can be expected from the developing countries in the field of manufactures, and commodity trade in particular, with specific implications for Australia.

As UNCTAD V indicated, and as regional discussions in ASEAN and elsewhere also indicate, these issues will remain important. For manufactures, the lack of success for developing countries in the multilateral trade negotiations will lead to continued pressures for specific attention to be given to access to markets for the exports of developing countries. In part because of the difficulties such access provides at times of low international economic activity, this will be more of an issue the longer international recovery is delayed.

Commodity problems will remain on the agenda, although with a Common Fund established, concerted efforts are likely to be confined to those countries interested in specific commodities. It also will be blurred by the efforts to extend regional arrangements for export income stabilisation under the Lomé Convention.

5. Australia's general interests in the NIEO

(a) Global

To most developing countries outside of the Asian Pacific region, direct interest in Australia is generally limited. On particular commodity matters, Australia's attitude is important to interested countries in South America, the Caribbean and, to a lesser extent, in Africa. To many of these countries their understanding of Australia is often shaped by its response in the fields of wool, wheat, bauxite, tin, or sugar.

In some African countries Australia's attitudes to the wider problems of Africa, often seen in the past in a racial context, notably in the Commonwealth Heads of Government Meetings, have tended to be more important than Australia's attitudes to international economic issues. In overall relationships with the developing countries, Australia's attitudes in the economic fields have tended to be the dominant areas of interest and will continue to be so.

In the past Australia has often taken an independent line in the field of international economic relations that has commonly earned respect and understanding, and evidence put to the Committee suggested that Australia's renewed willingness to put a position different to that of the other developed countries, when soundly based and effectively developed, has been well received.

It would be absurd to seek to achieve favourable responses in this way where the balance of Australia's long-term interests and that of the international economic system would be adversely affected or where there were not solid reasons for doing so. It is important to keep in mind, however, the extent to which attitudes to Australia by the developing countries are shaped by Australia's attitudes to international economic issues such as the NIEO.

(b) The region

Australia's attitudes must continue to take into account that the Asian countries are its neighbours and that the ASEAN group in particular has a cohesion and solidarity which is significant, one which is shaped importantly by the Group of 77 philosophy and has to be interpreted in that context. Consequently, Australia's actions and responses will be closely examined from that aspect. They will affect political relations with the region and the countries in it and this itself will affect relations with the developing world generally. Consistent with their interests, the ASEAN countries have at times had a moderating influence in developing country forums.

A purely regional approach to the NIEO and related issues would not be sensible. A number of the NIEO proposals, such as the Common Fund, are international rather than regional in scope. They also need global support for their viability and success. Moreover, traditionally, Australia has correctly followed a general policy of adopting a global approach to issues of trade and payments (through such institutions as GATT and IMF) and to international issues of a more general political and strategic nature (in the UN and elsewhere).

Nevertheless, in a number of areas of specific interest—and Australia's aviation, commodity and trade policies suggest themselves—Australia has to be especially responsive to the needs and problems of the region in its approach to the NIEO.

Trading relationships with Australia's Asian neighbours in particular present great opportunities, but also require adjustments in the economy not easily or quickly undertaken. If Australia is not prepared to make these adjustments, and to build a stronger two-way relationship not only in trade but in investment, technology transfer, education co-operation and the like, opportunities will be lost for benefits to Australia's economy. At the same time, Australia is likely to generate at least a lack of sympathy and more probably a degree of bitterness in these countries with important implications for bilateral and regional relationships.

One of the important aspects of the NIEO is that it is bringing a greater recognition and acceptance of the need for adjustment domestically and for co-operative arrangements in the region. If these countries are not allowed to develop in the way they should, or if their development is prevented by a refusal to adjust policies particularly in countries such as Australia, these countries could turn against Australia, for example, or retaliate in some form. 'It is not a question of how we can respond to what is happening in those countries in terms of what is good for them. It is that we have to respond because we cannot afford not to in terms of our own interest.'¹⁴ Economic isolation from Australia's immediate neighbourhood could rapidly lead to political and strategic isolation, with serious dangers to Australia's strategic and defence situation. This aspect is dealt with in more detail subsequently.

Within the region Australia has important bilateral links with a number of countries such as Papua New Guinea which have more than just an economic basis. While Australia's attitudes to the NIEO are not likely to be a major factor in these bilateral relationships at this time, this position could change. A more critical view could be taken within these relationships of Australia's attitudes towards some of the issues the NIEO raises if the present relatively favourable economic situation in the region deteriorates because of the world recession or under the pressure of increasing energy costs.

There are also a number of regional links. While the South Pacific Forum countries and the regional meetings of the members of the Commonwealth represent groupings with an importance to Australia, the major economic group—Malaysia, Singapore, Thailand, the Philippines and Indonesia—is ASEAN.

(c) The Association of South-East Asian Nations

Australia's relationships with ASEAN have not been easy. ASEAN countries, in particular, reacted adversely to Australia's action in restricting imports of 'sensitive' manufactured products in 1974 and subsequently at the time of the international economic downturn. These measures covering most textile yarns, fabrics, clothing and accessories, footwear and plywood affected newly developing industries in these countries in a way that they judged compared unfavourably with their treatment by other developed countries and led to fears that other exports would be affected and developing country preference margins would be reduced—as they were on some items, for example flat glass and ceramic sanitary ware.

¹⁴ See transcript of evidence, *Official Hansard Report*, p. 1296.

Although the trade with Australia does not generally involve a sizeable proportion of the total trade of these countries, considerable irritation was generated particularly with Malaysia, Thailand, Singapore and the Philippines. This was due to a number of factors, including their disadvantageous treatment as new exporters compared with Hong Kong and South Korea; what was considered harsh treatment of newly established industries, including Australian-based companies, under the quantitative controls; and the fact that, despite their trade imbalances with Australia (apart from Singapore), such controls have limited their scope for reducing the imbalance.

In general, whatever the validity of the actions, and some of the problems faced stemmed from the speed with which problems emerged and the existing commitments that Australia had such as those preventing similar limits on textile imports from New Zealand, in responding to the political sensitivity of the domestic industries, nevertheless the Australian actions were seen as a sign of insensitivity to the aims and objectives of the developing countries in the region. This is so although the average annual rate of growth of ASEAN exports to Australia of 'sensitive' goods has been faster than Australia's total import growth and faster than the growth of imports of 'sensitive' items from all sources.

This concern about Australia's attitudes has been resurrected with the dispute over Australia's International Civil Aviation Policy. As an issue, its substance is hard to assess accurately because, in the nature of commercial negotiations, the available information is not provided to inform the public but to influence the outcome of the negotiations. Whatever the substance of the position on either side, the action has been interpreted as discriminating against Asia. Other side issues have emerged such as the alleged attempt by Australia to divide the ASEAN countries by seeking to negotiate bilaterally; again, whatever the substance, this led to the issue being dealt with by ASEAN as a group and succeeded in achieving a degree of collectivity in the approach by its member countries.

The issue does seem to illustrate an important aspect of bargaining in the region where Third World or regional solidarity can be used to help an economically weaker group. In other words, it would seem to be possible to interpret the issues as an attempt to maximise the gain to Australia of its bargaining strength which was largely successful, but at some cost.

Many of the issues discussed in this report have a particular relevance to the Committee's next reference 'Australia and ASEAN'. While the NIEO proposals, in the main, are still at the discussion and negotiation stage they are significant to Australia's relations with the ASEAN countries because they have specific application to some of the matters that are the cause of differences in the relationship.

6. Factors affecting Australia's attitude

(a) General factors

The Committee has referred at various stages to the lack of clarity that exists as to what acceptance of the NIEO does or may imply. Some witnesses argued that the NIEO was about power, economic or political, or both, and that the South was seeking an increase in its relative position at the expense of the North. Others saw the NIEO as capable at least of being a process by which the total cake was being enlarged and that there could, therefore, be mutual gains from the process.

A view that was also put to the Committee suggested that while there was some degree of mutual benefit possible in relation to the direct NIEO measures, the issue was one in which some short-term costs might be involved for the developed countries—either in direct material terms or in their effective power—but this was an investment that would be well repaid in the long term. This was so, even if only in the sense that without such an investment the situation of the developed countries will deteriorate relatively.

In part, this reflects a view that there has been, or will be, an actual shift in the potential power of the developing countries which has not been reflected adequately in the structure of the international economic system. As a general proposition, the Committee accepts this view.

The Committee also accepts that there is a considerable degree of direct common interest and that considerable benefits to the developed countries as a whole, and ultimately to Australia, will come from sensible measures in the NIEO context.

The NIEO raises for Australia two separate policy issues:

- (i) the response required to the proposals to promote or defend Australia's specific economic interests in the changed international economic system, to adjust to a changing international economic environment; and
- (ii) the response required to what are often legitimate demands by developing countries on broad foreign policy grounds—geography, strategic considerations, morality and in terms of the maintenance of a stable world structure in international institutions and arrangements.

This second issue also relates to the Committee's requirement, in its terms of reference, to consider the implications for Australia's national security of the proposals for the NIEO. While the Committee has not considered defence as such as a directly related issue, it does believe that Australia's national security is enhanced by the development of good political and economic relationships with, among others, the countries of the Third World and particularly those which are its neighbours in the region.

It was argued that the North has tended to react to proposals and demands from the South and to find them wanting rather than to make positive suggestions as to how acknowledged problems can be dealt with, and this has tended to be in response to a belief that the South could not sustain a lasting challenge to the existing economic order.¹⁵ Looked at in a broad context, the Committee believes that such an approach has dangers for the North and for Australia.

Given the Committee's view that the demands for an NIEO cannot be ignored, the strategic aspects of the North-South negotiations have an importance. For example, if the developed countries only respond to proposals when the developing countries prove troublesome, this is more likely to be when radicals are most influential in the developing countries—and a response by the developed countries then tends to strengthen the position of the radicals against that of the moderates who, because they do not cause trouble, are ignored. Yet, this seems likely to be contrary to Australia's interests and the interests of the developed countries as a whole. The North's interests—and more particularly those of Australia—are likely to be best served by taking initiatives which help both Australia and the moderate developing countries.

The scope that Australia by itself has for changing the international trading system is very small. Any such changes have to come through the major trading nations of the North. Even in the region, as has been evident, Australia's trade with the ASEAN countries is a relatively small part of their total exports.

Australia clearly has difficulties with many of the radical proposals associated with the NIEO. The Committee concludes, however, that it does have an interest in achieving a full and constructive participation by the developed countries as a whole and, on its own part, in the negotiations.

Australia, it is often suggested, has a role as a 'bridge' between the developed industrialised countries and the developing countries in the region. As already indicated, Australia does have some similarities with members of both groups: as an importer of capital and technology, as a host to transnational corporations and as a country dependent upon primary commodities it has some affinities with the Group of 77 countries. As a rich, industrialised developed country it is clearly a member of the North and as a commodity exporter it is a competitor with many developing countries.

This lack of complete identity with either group does have important disadvantages. There is a disinclination by the North to accept that Australia's interests are different to those of the industrialised raw material importing countries. Australia's concerns are therefore difficult to have recognised and accepted. The fact that Australia is also a competitor of the developing countries in the commodity trading and investment field means that it is to some extent suspect by the developing countries. Some witnesses were also concerned that Australia has been used at times by the North to press for policies that were seen as more acceptable if emanating from Australia than, say, from other rich industrialised countries.

In some respects, however, Australia's lack of complete identity with either group does facilitate a role which allows it to make constructive proposals for change which have some chance of facilitating agreement—as was the case with the Common Fund discussions. The idea that Australia could, in some way, be

¹⁵ See transcript of evidence, *Official Hansard Report*, p. 743.

a 'bridge', however, has to be seen in this difficult context. Moreover, as one witness observed, the role of a bridge is to be walked on. The idea of bridge building, therefore, is less attractive as a role—with its implication of joining two positions which may change—than that Australia frequently has a legitimate interest in taking a rational position which supports neither the extreme North or South position but which can, particularly on the commodity or trade issues, be achieved by some middle position which may be acceptable to or negotiable between the two groups. This approach is more easily justified on the basis of Australia's interests and the logic of its position that on any issue there is likely to be more than two sharply opposed positions.

The fact that Australia does not fit either group neatly has potential disadvantages in that any special arrangements made for developing countries—such as preferential trading arrangements or special concessions with international commodity arrangements—could be at Australia's expense.

An important question from the point of view of Australia's direct interest is the extent to which, by taking a positive and constructive role, Australia can limit measures contrary to its interests being introduced.

It is the view of the Committee that Australia does have a need to be actively involved in negotiations where its interests might be affected. Such involvement can more easily identify issues contrary to Australia's interests and ways of avoiding them by alerting those concerned to where its interests lie and by suggesting alternative or less damaging means of achieving the general objective. Australia's original suggestion for tariff preferences for developing countries took this form.

A more general issue is that Australia's short-term interests may not be its long-term interests. Thus a preferential arrangement among the ASEAN countries could have adverse effects on Australia's trade in the short run, but if ASEAN countries become more prosperous as a consequence this could benefit Australia directly as well as through any greater economic and political stability that would be achieved. Australia does seem to be well placed to gain directly, not just through increased exports of food and raw materials but also potentially through exports of technology intensive manufactured products from the increase in prosperity in the region. Even if this were not so, the indirect gains from the region's increased stability could be substantial.

(b) Implications of failure

It is useful at this stage to consider the possible consequences of failure from two separate aspects: the broader global implications, which will affect Australia indirectly; and those relating more directly to Australia. This does not mean that the two are not linked and should be considered separately in formulating Australia's responses.

At the global level the case for a constructive response is strong. Unless the enormous problems facing the developing world, such as those of poverty, over-population, inadequate food supplies, disease, lack of housing and shelter, and illiteracy, are tackled in a way that offers some hope of ultimate success, the existing sense of frustration around much of the world could build up in a cumulative fashion quite rapidly. The consequences of not adopting an approach that seeks a long-term mutual and joint benefit rather than confrontation and selfishness are difficult, if not impossible, to foretell but they could be immense and even catastrophic. In the, possibly dramatic, words of the Secretary-General of the United Nations, 'the NIEO is the price of peace'.

It is important not to overdramatise the risks of an effective and constructive response by Australia or the North to the NIEO proposals. The point is made in the submission by the Treasury that:

'Confrontation' between developing and developed countries is likely to be limited to a 'war of words' and is most unlikely to lead to *action* that would significantly damage the interests of either or both.¹⁶

This draws attention to the extent to which much of the debate is rhetoric. In the view of the Committee, however, it would also be easy to underestimate what the Department of Trade and Resources referred to as 'real demands, real pressures and real resentments' that underlie this rhetoric; clearly this has to be responded to by compromise and encouragement to pursue the demands in a practical way—it cannot be ignored.

It is not sufficient to argue that, despite their protestations, the response by developing countries in these circumstances will be determined by measures of their own self-interest and by calculations simply of economic rationality, and to assume that this largely implies the maintenance of the *status quo* with marginal and evolutionary changes occurring where mutually beneficial. Countries or groups frustrated in attempts to achieve what they see as a justified improvement in access to the benefits of the international economic system have, in the past, commonly followed courses not in their economic interest—at least in the short run—in order to build up pressures. If their prospects appear hopeless they may lash out, even if appearing counter to their economic interests.¹⁷ Threats, even if empty, could be associated with efforts to acquire the means to make those threats meaningful, or domestic instability could lead to a search for an international distraction.

Moreover, there are various levels of confrontation and antagonism and, even at lower levels than the confrontation implied above, substantial problems can emerge. It was suggested that difficulties in the North's relations regarding such questions as African resources, and that of the Law of the Sea negotiations, have been exacerbated by the general strains in the North-South relationships.

The pressures of the Third World could take three forms: political, economic and military. As this report observes in the next section, strategic pressures, while not to be ignored, are unlikely to be those of most potential concern. The most important pressure is almost certainly political. Australia has to maintain continuing political relationships covering a wide range of issues with developing countries. It has to be careful in its relations with Third World countries in general to avoid crossing the line between occasional public disagreements, which Australia—and the countries themselves—must feel free to have, and a continuing exchange of critical propaganda. Once countries get involved in a hostile relationship, major interest groups develop on either side with a vested interest in prolonging that hostility. If Australia became locked into a hostile relationship with a Third World country or a group, it could become reciprocal—and the Third World coherence then could become particularly important with a possibility that the non-committed could become hostile to Australia.

(c) Australia's strategic position

Because Australia is a resource-rich country with a small population located close to poorer but more densely populated countries, it tends to feel vulnerable to many pressures not experienced by countries in Europe and North America.

¹⁶ See transcript of evidence, *Official Hansard Report*, p. 896.

¹⁷ See transcript of evidence, *Official Hansard Report*, p. 1273.

It does have certain corresponding strengths that its resource position gives it, such as its lower level of vulnerability in the energy field. Nevertheless, Australians are generally conscious of the issues of national security and are sensitive to the consequences of their geographic location and their relative plentiful resource endowment. There is also some recognition that, in the event of a major upheaval in the region in which Australia became a vital interest of any power, its security could not be guaranteed.

Such possibilities are remote, however, and even given such circumstances the difficulties of any offensive action would be very great. The possibility of threats of a substantial nature from any developing country or group of developing countries is even more remote. Lower level threats could emerge in the event of major discords, through specific political disagreements—or through disputes over resources such as off-shore oil reserves or 200 nautical mile fishing zones. A further threat to security could occur if economic and political instability in those countries faces them with situations of desperation and extreme poverty in which they might be encouraged to look for drastic military solutions or at least distractions from domestic political pressures.

The possibility could arise of neighbouring developing countries applying economic pressure on Australia. This could occur in a number of ways through interference with shipping or air transport, or through trade embargoes in one form or another. While from time to time particular instances may well occur, the circumstances in which these might be a major threat are difficult to visualise provided that Australia is not insensitive to the situation of the developing countries, particularly those in its region. There is always the possibility of a threat of the developing countries as a group reacting adversely because of dissatisfaction with Australia's policies, for example the Singapore resolution at Manila or perhaps Australia's Aboriginal policies, and this possibility cannot be ignored. Nevertheless, despite the existence of a range of potentially divisive issues—resources, racial policies, Australian media criticism of the policies of developing countries—the development of serious divisions between Australia and developing countries as a group to an extent that would have significant strategic implications seems remote, even though specific difficulties could conceivably arise and persist with individual countries.

Although Australia's physical defence capacity is important, its strategic strength in any of these circumstances depends both upon its direct relationships with countries in the region and elsewhere and upon its general standing in the international community. Given a positive and constructive response to the developing countries' concerns, it should be possible to achieve acceptance of a continuing co-operative relationship with the countries in the region in particular, which would seem to be the best assurance against any strategic uncertainties. In these respects, if in no others, Australia's concerns with its relationships with developing countries are much more vital than, for example, those that Holland or Sweden have with those countries.

In general Australia should not regard itself to any significant extent as under any form of strategic duress in examining and responding to the pressures of the developing countries. Any external pressures likely to result from an unresponsive approach to the issues associated with the NIEO are far more likely to be economic and political in nature.

(d) Australia's international representation

From the information available to the Committee, Australia can be satisfied in most respects with the presentation of its case and its arguments internationally. Its interests have been generally well served in this difficult area of international relations.

Australia's special interests, particularly in the fields of trade and foreign relations, require that great emphasis be put on the adequacy of its representation at the various meetings being held to discuss these issues. While accepting the importance of domestic budgetary constraints, there appear to have been undue difficulties faced in covering the range of meetings at which Australia's interests have been under discussion. Although the range of meetings is very large and not all of them are in practice important, this is not always discernible beforehand and apparent financial economies could at times be costly to Australia's interests. The Committee considers it important that, to the fullest extent possible, Australia should participate in international discussions and negotiations where its interests might be affected.

The Committee's conclusions about Australia's interests in the NIEO are especially relevant to the stance that Australia should adopt in international forums regarding the developing countries in general and the NIEO in particular. Generally, the Committee believes Australia should not expect to play a leading role except where its interests require that level of participation. Perhaps more so now than in the past, Australia should clearly seek to avoid identifying with interests of particular developed countries which are not predominantly the interests of the developed countries as a whole. In areas where Australia has a special expertise, experience and interests different to those of other developed countries, as in the resource and commodity trade area and some aspects of development assistance, it should expect, and ensure, that its voice is heard. In other areas, it should resist the tendency to take a leading role. In particular, the Committee believes it is desirable to avoid the temptation to express strong views in areas such as the general processes of economic development where Australia has no special expertise, where certainty is clearly misplaced and where major power issues, with which Australia is not and need not be associated, are complicating factors.

This is reinforced in the Committee's view by the lack of clarity in the debate about how genuine the developed countries are in following the precepts of the liberal market-oriented international economic system they are urging the developing countries to follow, and by the lack of a clear understanding on either side of the debate as to the meaning of that term.

(e) Domestic presentation

A major gap remains in the public understanding of the issues and implications of the NIEO. It is true that the increase in press coverage since Australia started to take a more positive stance internationally has helped to publicise the issues and draw attention to their importance for Australia.

Moreover, specific issues such as development assistance, food problems, concerns by Asian countries about trade barriers to their manufactured exports and the longer standing issues of unsatisfactory trading conditions for commodities have a wider and longer standing public awareness.

The NIEO as such, however, is commonly seen as something not affecting the ordinary citizen. In some ways, the NIEO measures do involve issues of broad principle that are not easy for the man in the street or the media to put into perspective. Yet it is important that, in a country so susceptible to international economic and political influences, a wide understanding should be achieved. Increasing attention being given in various government reports and ministerial statements also contributes but much more needs to be done. This is particularly important in areas where the changes occurring internationally, as a result of the NIEO directly or linked in some way to it, affect Australian groups or interests. The obvious example is where structural adjustment pressures in high-cost local industries are increased by, or stem largely from, exports of developing countries.

If the public is to accept government leadership on these issues, there is a critical need for an understanding of the reasons why Australia must restructure many of its industries and lower substantially its trade barriers and accept the implications of the adjustment burdens and the help required for affected individuals those changes imply. There is a need to understand that Australia's future security and economic strength depend on harmonising its trade and industrial growth with the emerging dynamic economies of this region. Although the evidence suggests that the various non-governmental organisations concerned with aid in particular have tended to follow closely these and other issues arising from the NIEO and to articulate them, even here their efforts tend to fluctuate.

To some extent, Australian circumstances—geographic isolation, lack of experience of serious economic shortages or political problems—would seem to contribute to this. It was argued in evidence, for example, that public perceptions in countries such as Holland, the Scandinavian countries and Britain are much wider than in Australia. In Sweden, particularly, a positive policy on development assistance was linked with a positive policy on public education on the subject. The need was also indicated, in evidence to the Committee, for Australian businessmen operating in the Third World, particularly in Asia, to know more about the kinds of societies in which they are operating.¹⁸

At the same time, Australia's specific experience as an ex-colony, a commodity exporter, a capital and technology importer and its experience with multinationals should provide a base for understanding the issues if sufficient effort is made.

Suggestions of various kinds have been made as to how such public awareness of the issues and problems can be heightened. These include greater support for non-governmental organisations currently active in the field of raising the public consciousness of development issues and for new organisational arrangements. These included suggestions by a witness from the United Nations Association for an international development institute and that the Australian Development Assistance Bureau be funded to enable it to cover development education in Australia.¹⁹

The Committee has not formed a view as to the particular method that should be followed. It does hold the strong view, however, that effective policies in this field are vital to Australia's long-term interests and that such policies

¹⁸ See transcript of evidence, *Official Hansard Report*, p. 826–7.

¹⁹ See transcript of evidence, *Official Hansard Report*, p. 559–61.

are crucially dependent upon an informed and developed public opinion. Effective policy making with respect to the broad issues of the NIEO includes, therefore, the raising of public consciousness of the issues.

(f) Co-ordination of policies

Evidence to the Committee indicated that early problems existed in developing an appropriate Australian response to the NIEO. These seemed to have stemmed not so much from the lack of co-ordination arrangements as from a lack of general knowledge and information other than in two or three departments where specialised knowledge had built up over a long period of experience in UN, UNCTAD and related discussions.

It will increasingly be the case, however, that few issues important in Australia's international economic, political and strategic relationships will not involve issues associated with the North-South dialogue, whether explicitly within the NIEO or not. A sharp reminder of the importance of this, if a reminder were needed, came from the discussions with the ASEAN countries over Australia's new policies on airfares to Europe.

Greater consistency of Australia's international approach on such issues is essential. While the Committee would not wish to suggest a stultifying co-ordination that limits the effectiveness of policies in particular contexts by seeking a blanket uniformity, it does seek a process which ensures that Ministers are fully aware of the broader policy implications of such decisions and that unnecessary conflicts do not arise.

Acknowledgments

Submissions were received on this reference from individuals, associations, organisations, business firms and departments and the Committee is grateful for these contributions. The Committee also wishes to thank the persons who appeared at hearings to give verbal evidence in addition to their written submissions (see Appendix II).

In particular the Committee expresses its appreciation to Professor Stuart Harris, Professor of Resource Economics and Head, Resources Program, Centre for Resource and Environmental Studies, Australian National University. Professor Harris was engaged as Adviser to the Committee on this reference and his assistance with and analysis of the evidence proved most valuable to the Committee's deliberations and the production of this report.

The Senate Standing Committee on Foreign Affairs and Defence presents its report on the reference 'The implications for Australia's foreign policy and national security of proposals for a new international economic order'.

J. P. SIM
Chairman

The Senate
February 1980

APPENDIX 1

General Assembly—Sixth Special Session

RESOLUTIONS ADOPTED ON THE REPORT OF THE *AD HOC* COMMITTEE OF THE SIXTH SPECIAL SESSION

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3201 (S-VI). Declaration on the Establishment of a New International Economic Order

The General Assembly

Adopts the following Declaration:

DECLARATION ON THE ESTABLISHMENT OF A NEW INTERNATIONAL ECONOMIC ORDER

We, the Members of the United Nations,

Having convened a special session of the General Assembly to study for the first time the problems of raw materials and development, devoted to the consideration of the most important economic problems facing the world community,

Bearing in mind the spirit, purposes and principles of the Charter of the United Nations to promote the economic advancement and social progress of all peoples,

Solemnly proclaim our united determination to work urgently for the ESTABLISHMENT OF A NEW INTERNATIONAL ECONOMIC ORDER based on equity, sovereign equality, interdependence, common interest and co-operation among all States, irrespective of their economic and social systems which shall correct inequalities and redress existing injustices, make it possible to eliminate the widening gap between the developed and the developing countries and ensure steadily accelerating economic and social development and peace and justice for present and future generations, and, to that end, declare:

1. The greatest and most significant achievement during the last decades has been the independence from colonial and alien domination of a large number of peoples and nations which has enabled them to become members of the community of free peoples. Technological progress has also been made in all spheres of economic activities in the last three decades, thus providing a solid potential for improving the well-being of all peoples. However, the remaining vestiges of alien and colonial domination, foreign occupation, racial discrimination, *apartheid* and neo-colonialism in all its forms continue to be among the greatest obstacles to the full emancipation

and progress of the developing countries and all the peoples involved. The benefits of technological progress are not shared equitably by all members of the international community. The developing countries, which constitute 70 per cent of the world's population, account for only 30 per cent of the world's income. It has proved impossible to achieve an even and balanced development of the international community under the existing international economic order. The gap between the developed and the developing countries continues to widen in a system which was established at a time when most of the developing countries did not even exist as independent States and which perpetuates inequality.

2. The present international economic order is in direct conflict with current developments in international political and economic relations. Since 1970, the world economy has experienced a series of grave crises which have had severe repercussions, especially on the developing countries because of their generally greater vulnerability to external economic impulses. The developing world has become a powerful factor that makes its influence felt in all fields of international activity. These irreversible changes in the relationship of forces in the world necessitate the active, full and equal participation of the developing countries in the formulation and application of all decisions that concern the international community.

3. All these changes have thrust into prominence the reality of interdependence of all the members of the world community. Current events have brought into sharp focus the realization that the interests of the developed countries and those of the developing countries can no longer be isolated from each other, that there is a close interrelationship between the prosperity of the developed countries and the growth and development of the developing countries, and that the prosperity of the international community as a whole depends upon the prosperity of its constituent parts. International co-operation for development is the shared goal and common duty of all countries. Thus the political, economic and social well-being of present and future generations depends more than ever on co-operation between all the

members of the international community on the basis of sovereign equality and the removal of the disequilibrium that exists between them.

4. The new international economic order should be founded on full respect for the following principles:

(a) Sovereign equality of States, self-determination of all peoples, inadmissibility of the acquisition of territories by force, territorial integrity and non-interference in the internal affairs of other States;

(b) The broadest co-operation of all the States members of the international community, based on equity, whereby the prevailing disparities in the world may be banished and prosperity secured for all;

(c) Full and effective participation on the basis of equality of all countries in the solving of world economic problems in the common interest of all countries, bearing in mind the necessity to ensure the accelerated development of all the developing countries, while devoting particular attention to the adoption of special measures in favour of the least developed, land-locked and island developing countries as well as those developing countries most seriously affected by economic crises and natural calamities, without losing sight of the interests of other developing countries;

(d) The right of every country to adopt the economic and social system that it deems the most appropriate for its own development and not to be subjected to discrimination of any kind as a result;

(e) Full permanent sovereignty of every State over its natural resources and all economic activities. In order to safeguard these resources, each State is entitled to exercise effective control over them and their exploitation with means suitable to its own situation, including the right to nationalization or transfer of ownership to its nationals, this right being an expression of the full permanent sovereignty of the State. No State may be subjected to economic, political or any other type of coercion to prevent the free and full exercise of this inalienable right;

(f) The right of all States, territories and peoples under foreign occupation, alien and colonial domination or *apartheid* to restitution and full compensation for the exploitation and depletion of, and damages to, the natural resources and all other resources of those States, territories and peoples;

(g) Regulation and supervision of the activities of transnational corporations by taking measures in the interest of the national economies of the countries where such transnational corporations operate on the basis of the full sovereignty of those countries;

(h) The right of the developing countries and the peoples of territories under colonial and racial domination and foreign occupation to achieve their liberation and to regain effective control over their natural resources and economic activities;

(i) The extending of assistance to developing countries, peoples and territories which are under colonial and alien domination, foreign occupation, racial discrimination or *apartheid* or are subjected to economic, political or any other type of coercive measures to obtain from them the subordination of the exercise of their sovereign rights and to secure from them advantages of any kind, and to neo-colonialism in all its forms, and which have estab-

lished or are endeavouring to establish effective control over their natural resources and economic activities that have been or are still under foreign control;

(j) Just and equitable relationship between the prices of raw materials, primary commodities, manufactured and semi-manufactured goods exported by developing countries and the prices of raw materials, primary commodities, manufactures, capital goods and equipment imported by them with the aim of bringing about sustained improvement in their unsatisfactory terms of trade and the expansion of the world economy;

(k) Extension of active assistance to developing countries by the whole international community, free of any political or military conditions;

(l) Ensuring that one of the main aims of the reformed international monetary system shall be the promotion of the development of the developing countries and the adequate flow of real resources to them;

(m) Improving the competitiveness of natural materials facing competition from synthetic substitutes;

(n) Preferential and non-reciprocal treatment for developing countries, wherever feasible, in all fields of international economic co-operation whenever possible;

(o) Securing favourable conditions for the transfer of financial resources to developing countries;

(p) Giving to the developing countries access to the achievements of modern science and technology, and promoting the transfer of technology and the creation of indigenous technology for the benefit of the developing countries in forms and in accordance with procedures which are suited to their economies;

(q) The need for all States to put an end to the waste of natural resources, including food products;

(r) The need for developing countries to concentrate all their resources for the cause of development;

(s) The strengthening, through individual and collective actions, of mutual economic, trade, financial and technical co-operation among the developing countries, mainly on a preferential basis;

(t) Facilitating the role which producers' associations may play within the framework of international co-operation and, in pursuance of their aims, *inter alia* assisting in the promotion of sustained growth of the world economy and accelerating the development of developing countries.

5. The unanimous adoption of the International Development Strategy for the Second United Nations Development Decade⁵ was an important step in the promotion of international economic co-operation on a just and equitable basis. The accelerated implementation of obligations and commitments assumed by the international community within the framework of the Strategy, particularly those concerning imperative development needs of developing countries, would contribute significantly to the fulfilment of the aims and objectives of the present Declaration.

6. The United Nations as a universal organization should be capable of dealing with problems of international economic co-operation in a compre-

⁵ Resolution 2626 (XXV).

hensive manner and ensuring equally the interests of all countries. It must have an even greater role in the establishment of a new international economic order. The Charter of Economic Rights and Duties of States, for the preparation of which the present Declaration will provide an additional source of inspiration, will constitute a significant contribution in this respect. All the States Members of the United Nations are therefore called upon to exert maximum efforts with a view to securing the implementation of the present Declaration, which is one of the principal guarantees for the creation of better conditions for all peoples to reach a life worthy of human dignity.

7. The present Declaration on the Establishment of a New International Economic Order shall be one of the most important bases of economic relations between all peoples and all nations.

2229th plenary meeting
1 May 1974

3202 (S-VI). Programme of Action on the Establishment of a New International Economic Order

The General Assembly

Adopts the following Programme of Action:

PROGRAMME OF ACTION ON THE ESTABLISHMENT OF A NEW INTERNATIONAL ECONOMIC ORDER

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INTRODUCTION

1. In view of the continuing severe economic imbalance in the relations between developed and developing countries, and in the context of the constant and continuing aggravation of the imbalance of the economies of the developing countries and the consequent need for the mitigation of their current economic difficulties, urgent and effective measures need to be taken by the international community to assist the developing countries, while devoting particular attention to the least developed, land-locked and island developing countries and those developing countries most seriously

affected by economic crises and natural calamities leading to serious retardation of development processes.

2. With a view to ensuring the application of the Declaration on the Establishment of a New International Economic Order,^a it will be necessary to adopt and implement within a specified period a programme of action of unprecedented scope and to bring about maximum economic co-operation and understanding among all States, particularly between developed and developing countries, based on the principles of dignity and sovereign equality.

I. FUNDAMENTAL PROBLEMS OF RAW MATERIALS AND PRIMARY COMMODITIES AS RELATED TO TRADE AND DEVELOPMENT

1. Raw materials

All efforts should be made:

(a) To put an end to all forms of foreign occupation, racial discrimination, *apartheid*, colonial, neo-colonial and alien domination and exploitation through the exercise of permanent sovereignty over natural resources;

(b) To take measures for the recovery, exploitation, development, marketing and distribution of natural resources, particularly of developing countries, to serve their national interests, to promote collective self-reliance among them and to strengthen mutually beneficial international economic co-operation with a view to bringing about the accelerated development of developing countries;

(c) To facilitate the functioning and to further the aims of producers' associations, including their joint marketing arrangements, orderly commodity trading, improvement in the export income of producing developing countries and in their terms of trade, and sustained growth of the world economy for the benefit of all;

(d) To evolve a just and equitable relationship between the prices of raw materials, primary commodities, manufactured and semi-manufactured goods exported by developing countries and the prices of raw materials, primary commodities, food, manufactured and semi-manufactured goods and capital equipment imported by them, and to work for a link between the prices of exports of developing countries and the prices of their imports from developed countries;

(e) To take measures to reverse the continued trend of stagnation or decline in the real price of several commodities exported by developing countries, despite a general rise in commodity prices, resulting in a decline in the export earnings of these developing countries;

(f) To take measures to expand the markets for natural products in relation to synthetics, taking into account the interests of the developing countries, and to utilize fully the ecological advantages of these products;

(g) To take measures to promote the processing of raw materials in the producer developing countries.

2. Food

All efforts should be made:

(a) To take full account of specific problems of developing countries, particularly in times of food

^a Resolution 3201 (S-VI).

shortages, in the international efforts connected with the food problem;

(b) To take into account that, owing to lack of means, some developing countries have vast potentialities of unexploited or underexploited land which, if reclaimed and put into practical use, would contribute considerably to the solution of the food crisis;

(c) By the international community to undertake concrete and speedy measures with a view to arresting desertification, salination and damage by locusts or any other similar phenomenon involving several developing countries, particularly in Africa, and gravely affecting the agricultural production capacity of these countries, and also to assist the developing countries affected by any such phenomenon to develop the affected zones with a view to contributing to the solution of their food problems;

(d) To refrain from damaging or deteriorating natural resources and food resources, especially those derived from the sea, by preventing pollution and taking appropriate steps to protect and reconstitute those resources;

(e) By developed countries, in evolving their policies relating to production, stocks, imports and exports of food, to take full account of the interests of:

(i) Developing importing countries which cannot afford high prices for their imports;

(ii) Developing exporting countries which need increased market opportunities for their exports;

(f) To ensure that developing countries can import the necessary quantity of food without undue strain on their foreign exchange resources and without unpredictable deterioration in their balance of payments, and, in this context, that special measures are taken in respect of the least developed, land-locked and island developing countries as well as those developing countries most seriously affected by economic crises and natural calamities;

(g) To ensure that concrete measures to increase food production and storage facilities in developing countries are introduced, *inter alia*, by ensuring an increase in all available essential inputs, including fertilizers, from developed countries on favourable terms;

(h) To promote exports of food products of developing countries through just and equitable arrangements, *inter alia*, by the progressive elimination of such protective and other measures as constitute unfair competition.

3. General trade

All efforts should be made:

(a) To take the following measures for the amelioration of terms of trade of developing countries and concrete steps to eliminate chronic trade deficits of developing countries:

(i) Fulfilment of relevant commitments already undertaken in the United Nations Conference on Trade and Development and in the International Development Strategy for the Second United Nations Development Decade;⁷

(ii) Improved access to markets in developed countries through the progressive removal of tariff and non-tariff barriers and of restrictive business practices;

(iii) Expeditious formulation of commodity agreements where appropriate, in order to regulate as necessary and to stabilize the world markets for raw materials and primary commodities;

(iv) Preparation of an over-all integrated programme, setting out guidelines and taking into account the current work in this field, for a comprehensive range of commodities of export interest to developing countries;

(v) Where products of developing countries compete with the domestic production in developed countries, each developed country should facilitate the expansion of imports from developing countries and provide a fair and reasonable opportunity to the developing countries to share in the growth of the market;

(vi) When the importing developed countries derive receipts from customs duties, taxes and other protective measures applied to imports of these products, consideration should be given to the claim of the developing countries that these receipts should be reimbursed in full to the exporting developing countries or devoted to providing additional resources to meet their development needs;

(vii) Developed countries should make appropriate adjustments in their economies so as to facilitate the expansion and diversification of imports from developing countries and thereby permit a rational, just and equitable international division of labour;

(viii) Setting up general principles for pricing policy for exports of commodities of developing countries, with a view to rectifying and achieving satisfactory terms of trade for them;

(ix) Until satisfactory terms of trade are achieved for all developing countries, consideration should be given to alternative means, including improved compensatory financing schemes for meeting the development needs of the developing countries concerned;

(x) Implementation, improvement and enlargement of the generalized system of preferences for exports of agricultural primary commodities, manufactures and semi-manufactures from developing to developed countries and consideration of its extension to commodities, including those which are processed or semi-processed; developing countries which are or will be sharing their existing tariff advantages in some developed countries as the result of the introduction and eventual enlargement of the generalized system of preferences should, as a matter of urgency, be granted new openings in the markets of other developed countries which should offer them export opportunities that at least compensate for the sharing of those advantages;

(xi) The setting up of buffer stocks within the framework of commodity arrangements and their financing by international financial institutions, wherever necessary, by the developed countries and, when they are able to do so, by the developing countries, with the aim of favouring the producer developing

⁷ Resolution 2626 (XXV).

and consumer developing countries and of contributing to the expansion of world trade as a whole;

- (xii) In cases where natural materials can satisfy the requirements of the market, new investment for the expansion of the capacity to produce synthetic materials and substitutes should not be made;

(b) To be guided by the principles of non-reciprocity and preferential treatment of developing countries in multilateral trade negotiations between developed and developing countries, and to seek sustained and additional benefits for the international trade of developing countries, so as to achieve a substantial increase in their foreign exchange earnings, diversification of their exports and acceleration of the rate of their economic growth.

4. Transportation and insurance

All efforts should be made:

(a) To promote an increasing and equitable participation of developing countries in the world shipping tonnage;

(b) To arrest and reduce the ever-increasing freight rates in order to reduce the costs of imports to, and exports from, the developing countries;

(c) To minimize the cost of insurance and re-insurance for developing countries and to assist the growth of domestic insurance and reinsurance markets in developing countries and the establishment to this end, where appropriate, of institutions in these countries or at the regional level;

(d) To ensure the early implementation of the code of conduct for liner conferences;

(e) To take urgent measures to increase the import and export capability of the least developed countries and to offset the disadvantages of the adverse geographic situation of land-locked countries, particularly with regard to their transportation and transit costs, as well as developing island countries in order to increase their trading ability;

(f) By the developed countries to refrain from imposing measures or implementing policies designed to prevent the importation, at equitable prices, of commodities from the developing countries or from frustrating the implementation of legitimate measures and policies adopted by the developing countries in order to improve prices and encourage the export of such commodities.

II. INTERNATIONAL MONETARY SYSTEM AND FINANCING OF THE DEVELOPMENT OF DEVELOPING COUNTRIES

1. Objectives

All efforts should be made to reform the international monetary system with, *inter alia*, the following objectives:

(a) Measures to check the inflation already experienced by the developed countries, to prevent it from being transferred to developing countries and to study and devise possible arrangements within the International Monetary Fund to mitigate the effects of inflation in developed countries on the economies of developing countries;

(b) Measures to eliminate the instability of the international monetary system, in particular the uncertainty of the exchange rates, especially as it affects adversely the trade in commodities;

(c) Maintenance of the real value of the currency reserves of the developing countries by preventing their erosion from inflation and exchange rate depreciation of reserve currencies;

(d) Full and effective participation of developing countries in all phases of decision-making for the formulation of an equitable and durable monetary system and adequate participation of developing countries in all bodies entrusted with this reform and, particularly, in the proposed Council of Governors of the International Monetary Fund;

(e) Adequate and orderly creation of additional liquidity with particular regard to the needs of the developing countries through the additional allocation of special drawing rights based on the concept of world liquidity needs to be appropriately revised in the light of the new international environment; any creation of international liquidity should be made through international multilateral mechanisms;

(f) Early establishment of a link between special drawing rights and additional development financing in the interest of developing countries, consistent with the monetary characteristics of special drawing rights;

(g) Review by the International Monetary Fund of the relevant provisions in order to ensure effective participation by developing countries in the decision-making process;

(h) Arrangements to promote an increasing net transfer of real resources from the developed to the developing countries;

(i) Review of the methods of operation of the International Monetary Fund, in particular the terms for both credit repayments and "stand-by" arrangements, the system of compensatory financing, and the terms of the financing of commodity buffer stocks, so as to enable the developing countries to make more effective use of them.

2. Measures

All efforts should be made to take the following urgent measures to finance the development of developing countries and to meet the balance-of-payment crises in the developing world:

(a) Implementation at an accelerated pace by the developed countries of the time-bound programme, as already laid down in the International Development Strategy for the Second United Nations Development Decade, for the net amount of financial resource transfers to developing countries; increase in the official component of the net amount of financial resource transfers to developing countries so as to meet and even to exceed the target of the Strategy;

(b) International financing institutions should effectively play their role as development financing banks without discrimination on account of the political or economic system of any member country, assistance being untied;

(c) More effective participation by developing countries, whether recipients or contributors, in the decision-making process in the competent organs of the International Bank for Reconstruction and Development and the International Development Association,

through the establishment of a more equitable pattern of voting rights;

(d) Exemption, wherever possible, of the developing countries from all import and capital outflow controls imposed by the developed countries;

(e) Promotion of foreign investment, both public and private, from developed to developing countries in accordance with the needs and requirements in sectors of their economies as determined by the recipient countries;

(f) Appropriate urgent measures, including international action, should be taken to mitigate adverse consequences for the current and future development of developing countries arising from the burden of external debt contracted on hard terms;

(g) Debt renegotiation on a case-by-case basis with a view to concluding agreements on debt cancellation, moratorium, rescheduling or interest subsidization;

(h) International financial institutions should take into account the special situation of each developing country in reorienting their lending policies to suit these urgent needs; there is also need for improvement in practices of international financial institutions in regard to, *inter alia*, development financing and international monetary problems;

(i) Appropriate steps should be taken to give priority to the least developed, land-locked and island developing countries and to the countries most seriously affected by economic crises and natural calamities, in the availability of loans for development purposes which should include more favourable terms and conditions.

III. INDUSTRIALIZATION

All efforts should be made by the international community to take measures to encourage the industrialization of the developing countries, and to this end:

(a) The developed countries should respond favourably, within the framework of their official aid as well as international financial institutions, to the requests of developing countries for the financing of industrial projects;

(b) The developed countries should encourage investors to finance industrial production projects, particularly export-oriented production, in developing countries, in agreement with the latter and within the context of their laws and regulations;

(c) With a view to bringing about a new international economic structure which should increase the share of the developing countries in world industrial production, the developed countries and the agencies of the United Nations system, in co-operation with the developing countries, should contribute to setting up new industrial capacities including raw materials and commodity-transforming facilities as a matter of priority in the developing countries that produce those raw materials and commodities;

(d) The international community should continue and expand, with the aid of the developed countries and the international institutions, the operational and instruction-oriented technical assistance programmes, including vocational training and management development of national personnel of the developing countries, in the light of their special development requirements.

IV. TRANSFER OF TECHNOLOGY

All efforts should be made:

(a) To formulate an international code of conduct for the transfer of technology corresponding to needs and conditions prevalent in developing countries;

(b) To give access on improved terms to modern technology and to adapt that technology, as appropriate, to specific economic, social and ecological conditions and varying stages of development in developing countries;

(c) To expand significantly the assistance from developed to developing countries in research and development programmes and in the creation of suitable indigenous technology;

(d) To adapt commercial practices governing transfer of technology to the requirements of the developing countries and to prevent abuse of the rights of sellers;

(e) To promote international co-operation in research and development in exploration and exploitation, conservation and the legitimate utilization of natural resources and all sources of energy.

In taking the above measures, the special needs of the least developed and land-locked countries should be borne in mind.

V. REGULATION AND CONTROL OVER THE ACTIVITIES OF TRANSNATIONAL CORPORATIONS

All efforts should be made to formulate, adopt and implement an international code of conduct for transnational corporations:

(a) To prevent interference in the internal affairs of the countries where they operate and their collaboration with racist régimes and colonial administrations;

(b) To regulate their activities in host countries, to eliminate restrictive business practices and to conform to the national development plans and objectives of developing countries, and in this context facilitate, as necessary, the review and revision of previously concluded arrangements;

(c) To bring about assistance, transfer of technology and management skills to developing countries on equitable and favourable terms;

(d) To regulate the repatriation of the profits accruing from their operations, taking into account the legitimate interests of all parties concerned;

(e) To promote reinvestment of their profits in developing countries.

VI. CHARTER OF ECONOMIC RIGHTS AND DUTIES OF STATES

The Charter of Economic Rights and Duties of States, the draft of which is being prepared by a working group of the United Nations and which the General Assembly has already expressed the intention of adopting at its twenty-ninth regular session, shall constitute an effective instrument towards the establishment of a new system of international economic relations based on equity, sovereign equality, and interdependence of the interests of developed and developing countries. It is therefore of vital importance that the

forementioned Charter be adopted by the General Assembly at its twenty-ninth session.

VII. PROMOTION OF CO-OPERATION AMONG DEVELOPING COUNTRIES

1. Collective self-reliance and growing co-operation among developing countries will further strengthen their role in the new international economic order. Developing countries, with a view to expanding co-operation at the regional, subregional and interregional levels, should take further steps, *inter alia*:

(a) To support the establishment and/or improvement of an appropriate mechanism to defend the prices of their exportable commodities and to improve access to and stabilize markets for them. In this context the increasingly effective mobilization by the whole group of oil-exporting countries of their natural resources for the benefit of their economic development is to be welcomed. At the same time there is the paramount need for co-operation among the developing countries in evolving urgently and in a spirit of solidarity all possible means to assist developing countries to cope with the immediate problems resulting from this legitimate and perfectly justified action. The measures already taken in this regard are a positive indication of the evolving co-operation between developing countries;

(b) To protect their inalienable right to permanent sovereignty over their natural resources;

(c) To promote, establish or strengthen economic integration at the regional and subregional levels;

(d) To increase considerably their imports from other developing countries;

(e) To ensure that no developing country accords to imports from developed countries more favourable treatment than that accorded to imports from developing countries. Taking into account the existing international agreements, current limitations and possibilities and also their future evolution, preferential treatment should be given to the procurement of import requirements from other developing countries. Wherever possible, preferential treatment should be given to imports from developing countries and the exports of those countries;

(f) To promote close co-operation in the fields of finance, credit relations and monetary issues, including the development of credit relations on a preferential basis and on favourable terms;

(g) To strengthen efforts which are already being made by developing countries to utilize available financial resources for financing development in the developing countries through investment, financing of export-oriented and emergency projects and other long-term assistance;

(h) To promote and establish effective instruments of co-operation in the fields of industry, science and technology, transport, shipping and mass communication media.

2. Developed countries should support initiatives in the regional, subregional and interregional co-operation of developing countries through the extension of financial and technical assistance by more effective and concrete actions, particularly in the field of commercial policy.

VIII. ASSISTANCE IN THE EXERCISE OF PERMANENT SOVEREIGNTY OF STATES OVER NATURAL RESOURCES

All efforts should be made:

(a) To defeat attempts to prevent the free and effective exercise of the rights of every State to full and permanent sovereignty over its natural resources;

(b) To ensure that competent agencies of the United Nations system meet requests for assistance from developing countries in connexion with the operation of nationalized means of production.

IX. STRENGTHENING THE ROLE OF THE UNITED NATIONS SYSTEM IN THE FIELD OF INTERNATIONAL ECONOMIC CO-OPERATION

1. In furtherance of the objectives of the International Development Strategy for the Second United Nations Development Decade and in accordance with the aims and objectives of the Declaration on the Establishment of a New International Economic Order, all Member States pledge to make full use of the United Nations system in the implementation of the present Programme of Action, jointly adopted by them, in working for the establishment of a new international economic order and thereby strengthening the role of the United Nations in the field of world-wide co-operation for economic and social development.

2. The General Assembly of the United Nations shall conduct an over-all review of the implementation of the Programme of Action as a priority item. All the activities of the United Nations system to be undertaken under the Programme of Action as well as those already planned, such as the World Population Conference, 1974, the World Food Conference, the Second General Conference of the United Nations Industrial Development Organization and the mid-term review and appraisal of the International Development Strategy for the Second United Nations Development Decade should be so directed as to enable the special session of the General Assembly on development, called for under Assembly resolution 3172 (XXVIII) of 17 December 1973, to make its full contribution to the establishment of the new international economic order. All Member States are urged, jointly and individually, to direct their efforts and policies towards the success of that special session.

3. The Economic and Social Council shall define the policy framework and co-ordinate the activities of all organizations, institutions and subsidiary bodies within the United Nations system which shall be entrusted with the task of implementing the present Programme of Action. In order to enable the Economic and Social Council to carry out its tasks effectively:

(a) All organizations, institutions and subsidiary bodies concerned within the United Nations system shall submit to the Economic and Social Council progress reports on the implementation of the Programme of Action within their respective fields of competence as often as necessary, but not less than once a year;

(b) The Economic and Social Council shall examine the progress reports as a matter of urgency, to which end it may be convened, as necessary, in special session or, if need be, may function continuously. It shall draw the attention of the General Assembly to the problems and difficulties arising in connexion with the implementation of the Programme of Action.

4. All organizations, institutions, subsidiary bodies and conferences of the United Nations system are entrusted with the implementation of the Programme of Action. The activities of the United Nations Conference on Trade and Development, as set forth in General Assembly resolution 1995 (XIX) of 30 December 1964, should be strengthened for the purpose of following in collaboration with other competent organizations the development of international trade in raw materials throughout the world.

5. Urgent and effective measures should be taken to review the lending policies of international financial institutions, taking into account the special situation of each developing country, to suit urgent needs, to improve the practices of these institutions in regard to, *inter alia*, development financing and international monetary problems, and to ensure more effective participation by developing countries—whether recipients or contributors—in the decision-making process through appropriate revision of the pattern of voting rights.

6. The developed countries and others in a position to do so should contribute substantially to the various organizations, programmes and funds established within the United Nations system for the purpose of accelerating economic and social development in developing countries.

7. The present Programme of Action complements and strengthens the goals and objectives embodied in the International Development Strategy for the Second United Nations Development Decade as well as the new measures formulated by the General Assembly at its twenty-eighth session to offset the shortfalls in achieving those goals and objectives.

8. The implementation of the Programme of Action should be taken into account at the time of the mid-term review and appraisal of the International Development Strategy for the Second United Nations Development Decade. New commitments, changes, additions and adaptations in the Strategy should be made, as appropriate, taking into account the Declaration on the Establishment of a New International Economic Order and the present Programme of Action.

X. SPECIAL PROGRAMME

The General Assembly adopts the following Special Programme, including particularly emergency measures to mitigate the difficulties of the developing countries most seriously affected by economic crisis, bearing in mind the particular problem of the least developed and land-locked countries:

The General Assembly,

Taking into account the following considerations:

(a) The sharp increase in the prices of their essential imports such as food, fertilizers, energy products, capital goods, equipment and services, including transportation and transit costs, has gravely exacerbated the increasingly adverse terms of trade of a number of developing countries, added to the burden of their foreign debt and, cumulatively, created a situation which, if left untended, will make it impossible for them to finance their essential imports and development and result in a further deterioration in the levels and conditions of life in these countries. The present crisis is the outcome of all the problems that

have accumulated over the years: in the field of trade, in monetary reform, the world-wide inflationary situation, inadequacy and delay in provision of financial assistance and many other similar problems in the economic and developmental fields. In facing the crisis, this complex situation must be borne in mind so as to ensure that the Special Programme adopted by the international community provides emergency relief and timely assistance to the most seriously affected countries. Simultaneously, steps are being taken to resolve these outstanding problems through a fundamental restructuring of the world economic system, in order to allow these countries while solving the present difficulties to reach an acceptable level of development.

(b) The special measures adopted to assist the most seriously affected countries must encompass not only the relief which they require on an emergency basis to maintain their import requirements, but also, beyond that, steps to consciously promote the capacity of these countries to produce and earn more. Unless such a comprehensive approach is adopted, there is every likelihood that the difficulties of the most seriously affected countries may be perpetuated. Nevertheless, the first and most pressing task of the international community is to enable these countries to meet the shortfall in their balance-of-payments positions. But this must be simultaneously supplemented by additional development assistance to maintain and thereafter accelerate their rate of economic development.

(c) The countries which have been most seriously affected are precisely those which are at the greatest disadvantage in the world economy: the least developed, the land-locked and other low-income developing countries as well as other developing countries whose economies have been seriously dislocated as a result of the present economic crisis, natural calamities, and foreign aggression and occupation. An indication of the countries thus affected, the level of the impact on their economies and the kind of relief and assistance they require can be assessed on the basis, *inter alia*, of the following criteria:

- (i) Low *per capita* income as a reflection of relative poverty, low productivity, low level of technology and development;
- (ii) Sharp increase in their import cost of essentials relative to export earnings;
- (iii) High ratio of debt servicing to export earnings;
- (iv) Insufficiency in export earnings, comparative inelasticity of export incomes and unavailability of exportable surplus;
- (v) Low level of foreign exchange reserves or their inadequacy for requirements;
- (vi) Adverse impact of higher transportation and transit costs;
- (vii) Relative importance of foreign trade in the development process.

(d) The assessment of the extent and nature of the impact on the economies of the most seriously affected countries must be made flexible, keeping in mind the present uncertainty in the world economy, the adjustment policies that may

be adopted by the developed countries and the flow of capital and investment. Estimates of the payments situation and needs of these countries can be assessed and projected reliably only on the basis of their average performance over a number of years. Long-term projections, at this time, cannot but be uncertain.

(e) It is important that, in the special measures to mitigate the difficulties of the most seriously affected countries, all the developed countries as well as the developing countries should contribute according to their level of development and the capacity and strength of their economies. It is notable that some developing countries, despite their own difficulties and development needs, have shown a willingness to play a concrete and helpful role in ameliorating the difficulties faced by the poorer developing countries. The various initiatives and measures taken recently by certain developing countries with adequate resources on a bilateral and multilateral basis to contribute to alleviating the difficulties of other developing countries are a reflection of their commitment to the principle of effective economic co-operation among developing countries.

(f) The response of the developed countries which have by far the greater capacity to assist the affected countries in overcoming their present difficulties must be commensurate with their responsibilities. Their assistance should be in addition to the presently available levels of aid. They should fulfil and if possible exceed the targets of the International Development Strategy for the Second United Nations Development Decade on financial assistance to the developing countries, especially that relating to official development assistance. They should also give serious consideration to the cancellation of the external debts of the most seriously affected countries. This would provide the simplest and quickest relief to the affected countries. Favourable consideration should also be given to debt moratorium and rescheduling. The current situation should not lead the industrialized countries to adopt what will ultimately prove to be a self-defeating policy aggravating the present crisis.

Recalling the constructive proposals made by His Imperial Majesty the Shahanshah of Iran⁸ and His Excellency Mr. Houari Boumediène, President of the People's Democratic Republic of Algeria,⁹

1. *Decides* to launch a Special Programme to provide emergency relief and development assistance to the developing countries most seriously affected, as a matter of urgency, and for the period of time necessary, at least until the end of the Second United Nations Development Decade, to help them overcome their present difficulties and to achieve self-sustaining economic development;

2. *Decides* as a first step in the Special Programme to request the Secretary-General to launch an emergency operation to provide timely relief to the most seriously affected developing countries, as defined in subparagraph (c) above, with the aim of maintaining unimpaired essential imports for the duration of the coming twelve months and to invite the indus-

trialized countries and other potential contributors to announce their contributions for emergency assistance, or intimate their intention to do so, by 15 June 1974 to be provided through bilateral or multilateral channels, taking into account the commitments and measures of assistance announced or already taken by some countries, and further requests the Secretary-General to report the progress of the emergency operation to the General Assembly at its twenty-ninth session, through the Economic and Social Council at its fifty-seventh session;

3. *Calls upon* the industrialized countries and other potential contributors to extend to the most seriously affected countries immediate relief and assistance which must be of an order of magnitude that is commensurate with the needs of these countries. Such assistance should be in addition to the existing level of aid and provided at a very early date to the maximum possible extent on a grant basis and, where not possible, on soft terms. The disbursement and relevant operational procedures and terms must reflect this exceptional situation. The assistance could be provided either through bilateral or multilateral channels, including such new institutions and facilities that have been or are to be set up. The special measures may include the following:

(a) Special arrangements on particularly favourable terms and conditions including possible subsidies for and assured supplies of essential commodities and goods;

(b) Deferred payments for all or part of imports of essential commodities and goods;

(c) Commodity assistance, including food aid, on a grant basis or deferred payments in local currencies, bearing in mind that this should not adversely affect the exports of developing countries;

(d) Long-term suppliers' credits on easy terms;

(e) Long-term financial assistance on concessionary terms;

(f) Drawings from special International Monetary Fund facilities on concessional terms;

(g) Establishment of a link between the creation of special drawing rights and development assistance, taking into account the additional financial requirements of the most seriously affected countries;

(h) Subsidies, provided bilaterally or multilaterally, for interest on funds available on commercial terms borrowed by the most seriously affected countries;

(i) Debt renegotiation on a case-by-case basis with a view to concluding agreements on debt cancellation, moratorium or rescheduling;

(j) Provision on more favourable terms of capital goods and technical assistance to accelerate the industrialization of the affected countries;

(k) Investment in industrial and development projects on favourable terms;

(l) Subsidizing the additional transit and transport costs, especially of the land-locked countries;

4. *Appeals* to the developed countries to consider favourably the cancellation, moratorium or rescheduling of the debts of the most seriously affected developing countries, on their request, as an important contribution to mitigating the grave and urgent difficulties of these countries;

⁸ A/9548, annex.

⁹ Official Records of the General Assembly, Sixth Special Session, Plenary Meetings, 2208th meeting, paras. 3-152.

5. *Decides* to establish a Special Fund under the auspices of the United Nations, through voluntary contributions from industrialized countries and other potential contributors, as a part of the Special Programme, to provide emergency relief and development assistance, which will commence its operations at the latest by 1 January 1975;

6. *Establishes* an *Ad Hoc* Committee on the Special Programme, composed of thirty-six Member States appointed by the President of the General Assembly, after appropriate consultations, bearing in mind the purposes of the Special Fund and its terms of reference:

(a) To make recommendations, *inter alia*, on the scope, machinery and modes of operation of the Special Fund, taking into account the need for:

- (i) Equitable representation on its governing body;
- (ii) Equitable distribution of its resources;
- (iii) Full utilization of the services and facilities of existing international organizations;
- (iv) The possibility of merging the United Nations Capital Development Fund with the operations of the Special Fund;
- (v) A central monitoring body to oversee the various measures being taken both bilaterally and multilaterally;

and, to this end, bearing in mind the different ideas and proposals submitted at the sixth special session, including those put forward by Iran¹⁰ and those made at the 2208th plenary meeting, and the comments thereon, and the possibility of utilizing the Special Fund to provide an alternative channel for normal development assistance after the emergency period;

(b) To monitor, pending commencement of the operations of the Special Fund, the various measures being taken both bilaterally and multilaterally to assist the most seriously affected countries;

(c) To prepare, on the basis of information provided by the countries concerned and by appropriate agencies of the United Nations system, a broad assessment of:

- (i) The magnitude of the difficulties facing the most seriously affected countries;
- (ii) The kind and quantities of the commodities and goods essentially required by them;
- (iii) Their need for financial assistance;
- (iv) Their technical assistance requirements, including especially access to technology;

7. *Requests* the Secretary-General of the United Nations, the Secretary-General of the United Nations Conference on Trade and Development, the President of the International Bank for Reconstruction and Development, the Managing Director of the International Monetary Fund, the Administrator of the United Nations Development Programme and the heads of the other competent international organizations to assist the *Ad Hoc* Committee on the Special Programme in performing the functions assigned to it under paragraph 6 above, and to help, as appropriate, in the operations of the Special Fund;

¹⁰ A/AC.166/L.15; see also A/9548, annex.

8. *Requests* the International Monetary Fund to expedite decisions on:

(a) The establishment of an extended special facility with a view to enabling the most seriously affected developing countries to participate in it on favourable terms;

(b) The creation of special drawing rights and the early establishment of the link between their allocation and development financing;

(c) The establishment and operation of the proposed new special facility to extend credits and subsidize interest charges on commercial funds borrowed by Member States, bearing in mind the interests of the developing countries and especially the additional financial requirements of the most seriously affected countries;

9. *Requests* the World Bank Group and the International Monetary Fund to place their managerial, financial and technical services at the disposal of Governments contributing to emergency financial relief so as to enable them to assist without delay in channelling funds to the recipients, making such institutional and procedural changes as may be required;

10. *Invites* the United Nations Development Programme to take the necessary steps, particularly at the country level, to respond on an emergency basis to requests for additional assistance which it may be called upon to render within the framework of the Special Programme;

11. *Requests* the *Ad Hoc* Committee on the Special Programme to submit its report and recommendations to the Economic and Social Council at its fifty-seventh session and invites the Council, on the basis of its consideration of that report, to submit suitable recommendations to the General Assembly at its twenty-ninth session;

12. *Decides* to consider as a matter of high priority at its twenty-ninth session, within the framework of a new international economic order, the question of special measures for the most seriously affected countries.

2229th plenary meeting
1 May 1974

* * *

The President of the General Assembly subsequently informed the Secretary-General¹¹ that, in pursuance of section X, paragraph 6, of the above resolution, he had appointed the members of the *Ad Hoc* Committee on the Special Programme.

As a result, the *Ad Hoc* Committee will be composed of the following Member States: ALGERIA, ARGENTINA, AUSTRALIA, BRAZIL, CHAD, COSTA RICA, CZECHOSLOVAKIA, FRANCE, GERMANY (FEDERAL REPUBLIC OF), GUYANA, INDIA, IRAN, JAPAN, KUWAIT, MADAGASCAR, NEPAL, NETHERLANDS, NIGERIA, NORWAY, PAKISTAN, PARAGUAY, PHILIPPINES, SOMALIA, SRI LANKA, SUDAN, SWAZILAND, SYRIAN ARAB REPUBLIC, TURKEY, UNION OF SOVIET SOCIALIST REPUBLICS, UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND, UNITED STATES OF AMERICA, UPPER VOLTA, URUGUAY, VENEZUELA, YUGOSLAVIA and ZAIRE.

¹¹ A/9558 and Add.1.

APPENDIX II

**List of persons and organisations submitting evidence
to the Committee**

ACTION FOR WORLD DEVELOPMENT, Sydney, New South Wales

Doherty, Mr J. P., Member
Jones, Brother P. G., Member
McMaster, Mr I. M., Member
Whelan, M T. A., Member

ADIE, Mr W. A. C., Canberra, Australian Capital Territory

AUSTRALIAN CONSERVATION FOUNDATION, Melbourne, Victoria

Hill, Mr D. G., Senior Projects Officer

AUSTRALIAN COUNCIL OF CHURCHES, Sydney, New South Wales

Rollason, Mr R. Information Officer
Nevile, Professor J. W., Member

BILLS, Mr K., Adelaide, South Australia

BUCKNALL, Dr K. B., Griffith, Queensland

CATHOLIC COMMISSION FOR JUSTICE AND PEACE, Sydney, New South
Wales

Pollard, Mr D., National Secretary
Gherardi, Reverend J., Research Officer

CORDEN, Mr W. M., Canberra, Australian Capital Territory

DEFENCE, Department of, Canberra, Australian Capital Territory

DEVEUX, Mr K., Perth, Western Australia

DRYSDALE, Dr P., Canberra, Australian Capital Territory

FARRAN, Mr A. C. C., Melbourne, Victoria

FOREIGN AFFAIRS, Department of, Canberra, Australian Capital Territory

Parkinson, Mr N. F., Secretary, Department of Foreign Affairs
Piper, Mr J., Assistant Secretary, Economic Organisations Branch
McKeown, Mr M. J., Assistant Secretary, International Legal Branch
Baker, Dr J. R., Assistant Secretary, Policy Development and Co-ordination
Branch
Harries, Professor O., Policy Planning Adviser
Spurr, Mr R. J., United Nations Economic Agencies Section
Conybeare, Mr C., Head, News and Media Section

HARRIS, Professor S., Canberra, Australian Capital Territory

HASTINGS, Mr P.

HEALTH, Department of, Canberra, Australian Capital Territory

JOHNSON, Professor D. H. N., Sydney, New South Wales

MacLEOD, Mr J. D. S., Melbourne, Victoria

MADIGAN, Mr R. T., Melbourne, Victoria

MARR, Ms S. J., Sydney, New South Wales
MCINTYRE, Sir L. R., Canberra, Australian Capital Territory
NATIONAL DEVELOPMENT, Department of, Canberra, Australian Capital Territory
O'NEILL, Dr R. J., Canberra, Australian Capital Territory
PHELAN, Mr R., Launceston, Tasmania
PRIMARY INDUSTRY, Department of, Canberra, Australian Capital Territory
SCIENCE & CSIRO, Department of, Canberra, Australian Capital Territory
SHEPPARD, Mr W. R., Melbourne, Victoria
THE INSTITUTE OF ECONOMIC DEMOCRACY, Kingstown, New South Wales
THE SOUTH AUSTRALIAN ACTION FOR WORLD DEVELOPMENT TEA GROUP, Adelaide, South Australia
THE UNITED NATIONS ASSOCIATION OF AUSTRALIA, Melbourne, Victoria
 Alston, Mr R. K. R.
 Farran, Mr A. C. C.
 Keen, Mr S. L.
 Salt, Mr J.
TRADE AND RESOURCES, Department of, Canberra, Australian Capital Territory
 Teese, Mr C. F. First Assistant Secretary
 McDonnell, Mr J. E. D., Director (Policy), International Trade Policy Division
TRANSPORT, Department of, Canberra, Australian Capital Territory
TREASURY, Department of, Canberra, Australian Capital Territory
 Stone, Mr J. O., Secretary, Department of the Treasury
 Moore, Mr J. D. C. C., First Assistant Secretary
 Keany, Mr J. W., Assistant Secretary, International Development, Finance Branch
 Broughton, Mr M. A., Senior Finance Officer
TURNBULL, Mr S., Melbourne, Victoria
WALKER, Mr S., Waterfall, New South Wales
WILCZYNSKI, Professor J. W., Canberra, Australian Capital Territory
WOMEN'S INTERNATIONAL LEAGUE FOR PEACE & FREEDOM, Sydney, New South Wales